



OFFICE OF THE BOARD OF TRUSTEES

Public Meeting Notice

January 15, 2016

TO: Southern Oregon University Board of Trustees
FROM: Sabrina Prud'homme, University Board Secretary
RE: Notice of Regular Meeting of the Board of Trustees

The Southern Oregon University Board of Trustees will hold a regular meeting on the date and at the location set forth below.

Topics of the meeting will include: a diversity and inclusion update; Board committee reports; and student and faculty leadership reports. There will also be a discussion and action on SOU's audited financial statements; a discussion and action on bond funding for the McNeal Pavilion and JPR projects; an update on the presidential search and related action on committee appointments; and a discussion and action on a proposed presidential contract amendment. The board will also receive updates on enrollment, accreditation, faculty negotiations, legislative developments and the recent HECC report.

The meeting will occur as follows:

Friday, January 22, 2016
12:00 p.m. to 5:00 p.m. (or until business is concluded)
(Lunch to be provided for the board and selected staff members.)
Hannon Library, DeBoer Boardroom, 3rd Floor, Room #303

The Hannon Library is located at 1290 Ashland Street, on the Ashland campus of Southern Oregon University. **To arrange special accommodations or to sign-up in advance for public comment, please contact Kathy Park at (541) 552-8055 at least 72 hours in advance.**



**Board of Trustees Meeting
January 22, 2016**

Call to Order and Preliminary Business



Board of Trustees Meeting

Friday, January 22, 2016
12:00 – 5:00 p.m. (or until business concludes)
DeBoer Room, Hannon Library

AGENDA

Persons wishing to participate during the public comment period shall sign up at the meeting.
Please note: times are approximate and items may be taken out of order.

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|-----------|----------|---|---|
| | 1 | Call to Order and Preliminary Business | Chair Thorndike |
| | 1.1 | Welcome and opening remarks | |
| | 1.2 | Agenda review | |
| | 1.3 | Roll call | Sabrina Prud'homme,
SOU, Board Secretary |
| | 1.4 | Consent Agenda: Approval of October 16, 2015 Meeting Minutes (Action) | Chair Thorndike |
| | 2 | Public Comment | |
| ~ 30 min. | 3 | Lunch and Campus Update | |
| | 3.1 | Diversity and Inclusion Update | Marjorie Trueblood-Gamble, SOU, Director, Diversity and Inclusion |
| ~ 15 min. | 4 | President's Report | President Saigo |
| ~ 30 min. | 5 | Committee Reports | |
| ~ 5 min. | 5.1 | Executive and Audit | Chair Thorndike |
| ~ 10 min. | 5.2 | Finance | Trustee Nicholson |
| ~ 15 min. | 5.3 | Academic and Student Affairs | Trustee Sayre |
| ~ 5 min. | 6 | Student Leadership Report | Torii Uyehara,
President, ASSOU |
| ~ 5 min. | 7 | Faculty Senate Report | Larry Shrewsbury,
President, Faculty Senate |

Board of Trustees Meeting

Friday, January 22, 2016
12:00 – 5:00 p.m. (or until business concludes)
DeBoer Room, Hannon Library

AGENDA (Cont'd)

~ 20 min.	8	Audited Financial Statements (Action)	CliftonLarsonAllen
~ 15 min.	9	Bond Funding for McNeal Pavilion: \$2 million XI-11Q bonds; and Theater – JPR Building: \$1.5 million XI-11F bonds (Action)	Trustee Nicholson
~15 mins.	10	Presidential Search Update and Committee Appointments (Action)	Trustee Hennion
~ 15 min.	11	Presidential Contract Amendment (Action)	Chair Thorndike
~10 min.	12	Enrollment Update	Chris Stanek, SOU, Director Institutional Research
~10 min.	13	Accreditation Update	Dr. Jody Waters, SOU, Associate Provost and Director of Graduate Studies
~ 10 min.	14	Faculty Negotiations Update	Brian Caufield, USSE, Director of Labor Relationships
~ 20 min.	15	Legislative Update	Liz Shelby, SOU, Government Relations
~ 20 min.	16	HECC Report Update	Dr. Susan Walsh, SOU, Provost and Vice President for Academic and Student Affairs
	17	Adjourn	Chair Thorndike



OFFICE OF THE BOARD OF TRUSTEES

Board of Trustees Meeting**Friday, October 16, 2015****12:00 – 5:00 p.m. (or until business concludes)****DeBoer Room, Hannon Library****MINUTES****Call to Order**

Chair Thorndike called the meeting to order at 11:59 a.m. He advised the group that they were going to adjust the order of the items on the agenda. After roll call and the consent agenda items, the President will give his update followed by public comment. The board will then move into executive session for an update on labor negotiations. After conclusion of the executive session, the meeting will follow the agenda items in order, starting with the campus update.

Roll Call

The following trustees were present: Bill Thorndike, April Sevcik, Sheri Bodager, Lyn Hennion, Paul Nicholson, Teresa Sayre, Judy Shih, Dennis Slattery, Joanna Steinman, Steve Vincent and Roy Saigo (ex officio). Les AuCoin participated by video teleconference.

The following trustees were absent: Filiberto Bencomo and Shea Washington.

Other attendees included: Liz Shelby, Chief of Staff and Director of Government Relations; Craig Morris, Vice President for Finance and Administration; Dr. Susan Walsh, Provost and Vice President for Academic and Student Affairs; Jason Catz, General Counsel; Ryan Brown, Head of Community and Media Relations; Fred Creek, Director of Campus Public Safety; Chris Stanek, Director of Institutional Research; John Stevenson, IT User Support Manager; Don Hill, Classroom and Media Services Manager; Lisa Garcia-Hanson, Associate Vice President for Enrollment and Retention; Karen Stone, Associate Vice President for Academic Resource Management; Janet Fratella, Vice President for Development; Treasa Sprague, Administrative Services Coordinator; Kathy Park, Executive Assistant; Barbara Saigo; Ginny Lang, University of Oregon; Todd Krohn; Colin Davis, SOU; Chava Florendo, SOU Foundation; Scott Rex, SOU; Dan DeNeui, SOU; Vicki Purslow, SOU; Emily Pfeiffer, ASSOU; Lee Ayers, SOU; Deborah Rosenberg, SOU; Chela Tapp-Kocks; Olena Black, League of Women Voters; Dennis Jablonski, SOU; Alena Ruggerio, SOU; Larry Shrewsbury, SOU; Lynn Kirms, SOU and APSOU; Alma Rosa Alvarez, SOU; John Almaguer, SOU; and Connor Wist, KDRV. Brian Caufield, University Shared Services Enterprise (USSE), Director of Labor Relationships, joined the meeting telephonically for the executive session in which he provided a faculty negotiations update.

Lyn Hennion moved to approve both the July 17, 2015 and the September 1, 2015 minutes as drafted. Joanna Steinman seconded the motion and it was approved unanimously.

President's Report

Agenda items were reordered to allow the President to deliver his update at the start of the meeting. President Roy Saigo welcomed all attendees. He mentioned several positive news points: the recent chairs and directors workshop; a smooth move-in day at the dorms; the move into the newly renovated science building (noting there are still issues to iron out); renovation and

expansion of the Theater Building, which will include space for JPR; the McNeal project; and the recent visit from Senators Wyden and Merkley to discuss college affordability with SOU students.

He then shared perspectives on where SOU is on other important initiatives. In her evaluation, Chancellor Cathy Dyck cited six criteria as measures of success for the President's performance as interim president: recast the university's mission; implement the retrenchment plan; make essential personnel changes; improve relationships with local communities; strategically restructure university operations and the budget to produce a surplus that can be invested in the implementation of the clarified vision and mission; and develop positive relationships with key political stakeholders. During the second year, he should focus on continuing the progress on enrollment and retention; increasing staff and student diversity; continuing outreach; increasing philanthropic support; and working closely with SOU's board to ensure financial stability.

President Saigo focused on three points in his presentation. First, was recasting the university's mission. There was concern that SOU had defined itself as a small, public, liberal arts university and that created confusion. He said there was a sense in the community that SOU thought of itself as the liberal arts college on the hill and no longer dedicated itself to the Rogue Valley and surrounding areas. Community members asked if SOU was a destination or regional university. He said SOU's primary focus is regional and if others want to come, they are welcome. Over the decades SOU has transformed into a multi-faceted university and has attracted students from afar. Having a clear identity helps to focus, plan, and let potential students know what to expect.

The second point was implementation of the retrenchment plan. The most urgent challenge was to "stop the bleeding." When President Saigo arrived in July 2014, enrollment was down 9 percent and SOU was down about \$3 million. It took about two weeks to get the entire campus working together on getting students re-registered and reaching out to students who had not yet committed to SOU. SOU gave dorm scholarships—the only resource the university had to offer students who could not afford to return. By the fourth week, SOU was doing better than anticipated. He was most pleased by the esprit de corps exhibited by the whole university.

President Saigo presented several statistics and focused on retention as key for SOU. He stated that the university is in retrenchment now because the required 5 percent fund balance reserve was too low and it was the institution's second time failing to meet required metrics.

The third point he addressed was diversity and inclusion, citing that diversity is up at SOU. In 2013, only 7.4 percent of the faculty were of color and now it is at 10.9 percent. He said the institution should ask why and that SOU should be able to improve. He moved Marjorie Trueblood-Gamble, the Director of Diversity and Inclusion, to a position that reports directly to the President. He expressed that SOU needs to nurture students of color and give them a welcoming, inclusive environment. Diversity in Oregon is changing and SOU must change with the times. The university needs to collect data on those students who stay until graduation and those who do not so we can learn the reasons why and can look for patterns to help with planning.

SOU has achieved a lot in the last 15 months but is still in a fragile state. The institution cannot afford to backslide.

Turning to personal matters, President Saigo announced he will continue with the assignment given to him – a two-year contract – and will continue to work on building relationships, linkages between SOU and its constituencies, and expand ways to attract new and transfer students. The first year has been one of vigorous initiation of defined work and the second will be continuing efforts to improve and solidify the processes that have moved us forward. He reported to his

cabinet and Chair Thorndike that he plans to conclude his tenure at SOU on June 30, 2016 as per his contract, has promised to assist the board and SOU until a new president is hired, and will do everything he can to make the transition as smooth as possible.

Concluding his remarks, President Saigo said SOU needs to treat students as if they are members of our own families and this duty of caring for students extends to the board. To the trustees, he encouraged them to be on campus as often as possible, eat at the Hawk, attend events, and talk to students and their families.

Public Comment

Nine people signed up for the public comment period. Vicki Purslow, the APSOU president, stated that SOU is in a better position since President Saigo has arrived, pointed out deficiencies in staffing and encouraged the board to begin the task of hiring a new president immediately.

Chava Florendo informed the board of the SOU Foundation's Count Me In scholarship fundraising campaign.

Señora Chela praised President Saigo and his accomplishments, as did Todd Krohn. Separately, four students, Colin Davis, Jamani Crockett, Hannah Egar and Darius Kila, supported extending President Saigo's contract and detailed the qualities they admired in him: his accessibility, his support of the sports teams, his caring nature, his focus on diversity and inclusion, and his genuine concern for students' opinions. Emily Pfeiffer, an SOU student, distributed a statement from another student, Oneta Cantlon, who was unable to attend the meeting; the statement supported an extension of President Saigo's contract.

President Saigo concluded the public comment period noting that he has worked 24/7 to bring SOU out of retrenchment. Change is very difficult, especially because it creates instability. As a path to success, he encouraged everyone to work with young people and work with a view through other people's eyes. The institution is what is important because we focus on the success of our students. He thanked everyone, even those who have opposed him, because they all came together to make SOU the institution it should be.

Faculty Negotiations Update - Executive Session [Pursuant to ORS 192.660 (2)(d)]

Chair Thorndike announced that, pursuant to ORS 192.660 (2)(d), the board would meet in executive session to conduct deliberations with persons designated by the governing body to carry on labor negotiations. Pursuant to ORS 192.660 (4), representatives of the news media were not allowed to attend this executive session. Pursuant to ORS 192.660 (6), no final action would be taken or final decision made in the executive session. Pursuant to ORS 351.020 (1), Trustees Slattery and Steinman were excused from the session as they may not participate in any discussions or action by the board or attend any executive session of the board involving collective bargaining issues that affect faculty or staff at any public university listed in ORS 351.011 (Oregon University System institutions).

In addition to the non-faculty and non-staff board members, the following people were permitted to remain for the executive session: Brian Caufield, President Saigo, Jason Catz, Liz Shelby, Kathy Park, Craig Morris, Sue Walsh and Ryan Brown.

After concluding the executive session, Chair Thorndike re-opened the meeting and invited interested parties back into the room for the remainder of the meeting.

Campus Safety and Security

Fred Creek, Director of Campus Public Safety, began his presentation by mentioning the 17 members of the Crisis Management Team and housing personnel, praising their performance over the past couple of weeks. There were four significant events in the last couple of weeks that his team, among others, were responding to: the shooting at Umpqua Community College (UCC), the Facebook posting of a threat at Ashland High School, a threat at RCC, and a threat at SOU. He offered varying amounts of detail about each event regarding response, SOU's involvement and assistance with each occurrence, and communication of information. Answering a question from Trustee AuCoin, Mr. Creek clarified that the SOU threat was a note left in a bathroom which students turned in to the help desk at the Stevenson Union.

He informed trustees that SOU alerts are the primary means of communicating with the community. The alerts are fast and effective, allowing the Crisis Management Team to get the most information out to the community in the shortest amount of time. Mr. Creek praised Ryan Brown, Head of Community and Media Relations, and Nicole Aleman, Director of Marketing, for the success of the notifications accomplished through social media.

Trustee Vincent asked if there was a mutual aid protocol for support between the universities. Craig Morris said there was not but during the emergencies he offered up several services from SOU. He indicated a formal protocol would be a good idea and there will be future discussions on that issue. Trustee Vincent further commented that there are other entities that should be notified when activating an Emergency Operations Center. Mr. Creek agreed and they have identified other entities on campus that need to be notified, such as mail services and food services. SOU has a great Crisis Management Team, along with other caring, involved SOU employees. Their response to this incident showcased their skills and the planning they have done. Mr. Morris mentioned that Mr. Creek had extensive expertise in crisis management and praised Mr. Creek's performance during the recent emergencies, saying his performance exceeded expectations. Mr. Morris also praised Ryan Brown for his response during these crises.

Committee Reports

Executive and Audit Committee Chair Thorndike reported that the committee is evaluating proposals from two firms for the external auditor position at SOU. He also briefed the committee on the consultations he and Trustee Sevcik had with the three constituent groups regarding the possible extension of President Saigo's contract. He noted that he would provide this information to the board later in the meeting.

Academic and Student Affairs Committee Chair Sayre updated the board on the last two committee meetings. At the September 17 meeting, the committee continued its education with a great presentation by Taylor Burke, the Director of Student Support and Intervention; reviewed the accreditation timeline; reviewed the report due to the HECC in December; and started discussions on a possible MOU with Klamath Community College (KCC) on staff rates. At the October 15 meeting, the Provost gave her five-point message; the committee reviewed the new proposed curriculum approval process, which Trustee Sayre will present to the board later in the meeting; Matt Stillman, University Registrar and Director of Enrollment and Retention Assessment, presented information on the numerous considerations of entering into an MOU with KCC and RCC; and Trustee Sayre walked the committee members through the institutional report to ensure understanding of the problems SOU has been facing.

Finance Committee Chair, Trustee Nicholson updated the board on the last two committee meetings. At the September 17 meeting, the committee reviewed the budget process and continued their athletics funding discussion. At the October 15 meeting, Penny Burgess, USSE,

Director of Treasury Operations, provided an investment update; Chris Stanek, Director of Institutional Research, gave an enrollment update; and Mark Denney, Associate Vice President for Budget and Planning, discussed Other Personnel Expenses and budget assumptions.

Government Relations and Legislative Update

Liz Shelby, Chief of Staff and Director of Government Relations, mentioned her retirement on November 30 and that she talked to President Saigo and Chair Thorndike about coming back to work during the February legislative session, which starts on February 2, to work on a few outstanding issues for SOU: the \$55 million shortfall from the last legislative session for higher education funding; McNeal funding of an additional \$2 million; and 11F state bonds to accelerate the theater building renovation and creation of a space for JPR.

Ms. Shelby said the treatment of sexual assault victims is still a priority for some legislators and that SOU is in the lead in that area. Regarding crisis management legislation, she said there needs to be some consistency among educational institutions. Ms. Shelby said the legislature is going to clean up the language in some of the statutes regarding the dissolution of OUS and the creation of the new governing boards.

She noted that SOU will be seeking the board's assistance with a few issues in the upcoming legislative session. The universities will engage the boards, collectively, in the upcoming session. There are 77 study groups for university policies and community college issues. Pointing out that OUS engaged lobbyists, Trustee Nicholson asked if the HECC would do the same. Ms. Shelby was not sure. She recommended that SOU consider creating a full-time position for legislative work but reminded them that it was President Saigo's decision to make

President Saigo said that, without reservation, Ms. Shelby was the very best he has ever worked with. She took on three jobs – Chief of Staff, legislative liaison and interim board secretary – and performed superbly. Trustee AuCoin also praised Ms. Shelby, adding that SOU is very lucky to have her.

Chair Thorndike pointed out that the HECC hired a new chair, Neil Bryant, and asked Ms. Shelby for advice on working with him. Ms. Shelby replied that Mr. Bryant has knowledge of and experience with higher education issues and she thought SOU was in good hands. Trustee Nicholson has a previous relationship with Mr. Bryant and concurred with Ms. Shelby's comments. Looking down the road politically, Trustee Hennion pointed out that two representatives will be leaving and asked Ms. Shelby for her advice on working with the legislature. Ms. Shelby was not ready to answer that question, and added that SOU needs to know who will take those seats before the university can decide how to proceed.

In addition to helping in Salem, Trustee Vincent believed the trustees could take action in the districts to help represent the university. For example, the trustees could meet with legislators in their districts. Ms. Shelby thought that was a good idea and was one more way to build relationships.

Enrollment Update

Since Chair Thorndike was the only trustee who had not yet heard the enrollment update during the previous day's meetings, Mr. Stanek covered only a couple of points. He noted the figures have increased a bit since his presentations one day ago. The updated FTE was 4,309, well above the

target set by the retrenchment metrics. This is 47 FTE below where SOU ended last year but Mr. Stanek anticipates that will improve with the addition of dual enrollment numbers.

Curriculum Approval Process

Trustee Sayre presented the proposed curriculum approval process to the board, asking the board to allow the Academic and Student Affairs Committee to make decisions on the programs. She described the main issue as timeliness, given that the committee meets monthly, the board meets quarterly, and proposals still have to get to the Provost's Council. The HECC does not want to make decisions on particular curricula; they just want to give their stamp of approval. PSU already uses this proposed process and finds it effective.

Trustee Nicholson wondered if there would be added value in the board ratifying a decision the committee makes. Dr. Walsh reiterated the committee's requirement to keep the board informed and believed inserting the board into the process might hold it up given the less frequent meetings of the HECC compared to those of OUS. Mr. Catz was concerned with cases where the board may choose not to ratify a decision. The board members discussed whether or how the board should be involved in the approval process and questioned whether the committee should act on behalf of the board. Responding to Trustee Shih's concern about having no advance notice of the need to make a decision, Trustee Sayre discussed the committee's recommended reporting requirements. Trustee Sevcik liked the proposal and, since trustees were able to attend Academic and Student Affairs Committee meetings, they could be involved at that stage of the process if desired.

Trustee Sayre proposed the following motion: that the full board delegate authority to the Academic and Student Affairs Committee to establish academic programs and curricula. With this delegation of authority, the committee shall be required to keep the SOU Board of Trustees informed of new proposals at regular meetings of the board and more often when necessary. Trustee AuCoin seconded the motion. It passed unanimously.

KCC-SOU MOU

Trustee Sayre provided background information on the proposed MOUs to offer staff tuition rate privileges to KCC and RCC, recognizing that a lot of work still needs to be done. Academic and Student Affairs Committee members have been working on the MOU and agreed upon several points to be included. The committee concluded that they wanted to allow a working group of staff, including the registrar's office, to move forward with exploring the issues. The committee is asking the board for permission for the staff to continue to work on the MOU, taking into account, the considerations discussed in previous meetings (e.g., face-to-face courses, inclusion or exclusion of online courses, pilot program, starting in the fall, keeping the rate at 30 percent, a maximum of 12 credit hours, reevaluation after one year, employees only (no dependents), at least half-time employees, possibly including "settling up" language and a cap). December 31, 2015 is the deadline for making a decision on whether to allow the staff to move forward with drafting the MOU. Trustee Nicholson clarified that Trustee Sayre was asking the board to approve the concept in general, with details to be finalized by the staff. Mr. Catz stated that the MOU would not be presented to the board again before the December deadline.

Trustee Vincent made the motion that the board authorize staff to develop a staff tuition rate privilege agreement between Southern Oregon University and Rogue Community College and Southern Oregon University and Klamath Community College, subject to mutual agreement of terms by the parties, to be designated as a pilot program commencing in the fall 2016 term and that the full board shall make final approval of the agreements. Trustee Slattery seconded the motion; it passed unanimously.

Presidential Search

The board took a 15-minute break and resumed the meeting at 3:29 p.m. Chair Thorndike pointed out that President Saigo has excused himself because he did not want to inhibit conversations on the next two topics, the presidential search and the SOU president's contract.

Chair Thorndike advised on discussions he and Trustee Sevcik had with members of the president's cabinet and the three constituent groups. He said the consultations were extremely valuable. Everyone showed compassion and passion for making sure SOU has a sustainable future and will serve the needs of our students, region, state, and beyond.

The OUS Chancellor's office had the charge to hire presidents. This will be SOU's first time hiring its president in a new way. Chair Thorndike said the board needs to do this thoughtfully, correctly, yet expeditiously; it is the board's decision to craft a way forward. He proposed creating a small subcommittee with the charge to bring forward the types of decisions and information the board will need to create the criteria for selecting the next president. The subcommittee could bring on additional members and could work with a consultant of its choice. Chair Thorndike reminded the board of President Saigo's willingness to help with this process to make it a smooth transition.

In addition to giving the working group the charge to conduct the necessary research, Chair Thorndike wants the board to give Mr. Morris the ability to contract with a consultant to help the board in the development of the RFP for an executive search firm. In the board's retreat in January, they will focus on this matter, finalize criteria and come to a consensus on the best direction forward.

Chair Thorndike was considering a motion to form a working group to engage in information gathering and reporting to the board regarding the SOU presidential search; the working group will work until the board identifies the selection committee and how they want to go forward with this. He and Vice Chair Sevcik would like Trustee Hennion to chair the working group and have spoken to her about it. The working group would need two additional trustees—keeping in mind quorum issues—plus representatives from other groups.

Trustee Sevcik said, in the consultations, the board was criticized for not moving forward more quickly with this issue and the board needs to recognize and take responsibility for that. Trustees need to act with prudence as moving forward.

Chair Thorndike then asked for thoughts from the trustees. Trustee Steinman asked for clarification on how and when the search committee would be formed. Chair Thorndike referred to the OUS policies on presidential searches and said they would have to decide which of those policies they wanted to stay with and which ones they would want to modify. Trustee Hennion outlined what she thought her role would be. She would receive a debriefing from Chair Thorndike and Vice Chair Sevcik on their consultations; identify key criteria desired in a new president; develop a list of proposed criteria; finalize the list and the steps forward at the board retreat in January; and then issue the RFP for the search firm.

The trustees discussed the timing of the RFP for the search firm. Trustee Sayre asked whether the search firm could help with the process of developing criteria and the way ahead and whether it would be better to issue the RFP sooner rather than later. Mr. Morris agreed, saying the scope of work in the RFP could include the requirement to help the board develop criteria, job description and the steps forward. Responding to Trustee Hennion's question about whether the RFP could be issued now, Mr. Morris said it could be. He said they could issue the RFP, wait 3-4

weeks to allow responses, review and analyze the responses, then conduct interviews. It might be possible to have the search firm on board before the January retreat. In the meantime, the working group can use non-search firm resources, such as the Association of University Governing Boards, to help with the process.

Trustee AuCoin questioned why the board would launch a search without knowing why President Saigo's contract was not extended. He questioned the wisdom of trying to recruit an all-star president in an environment involving retrenchment, retirements of senior faculty, growing expenses and a questionable legislative environment. He believed this was a recipe to get a "third-stringer." Trustee AuCoin wanted to go on record as adamantly opposing this course of action and that he thinks the board is making a big mistake. Chair Thorndike acknowledged Trustee AuCoin's position. Trustee Hennion believed SOU did not have to accept a third-string person and reminded the board that President Saigo offered his assistance and would stay longer if needed.

Trustee Slattery expressed concern about the narrative used. For example, President Saigo closed his remarks with a comment about those who opposed him and Trustee Slattery clarified there was no one who opposed President Saigo. He noted that there were people with differences of opinion on how to move SOU forward. There is a pool of talent who would love the chance to come to this great institution and the board has the opportunity to build something positive.

Trustee Vincent supports the direction the board is going. He has met with Ms. Shelby's counterpart at EOU to talk about their experience hiring a new president, someone from the private sector, and it seems to be going well for them.

Trustee Shih asked for clarification on the reasons for the proposed course of action. At a previous board meeting, she thought trustees were asked if they should extend the president's contract and that a survey should be conducted to get feedback from the campus community. At this meeting, President Saigo announced that he would complete his contract and depart in June 2016. To her, it seemed like something happened in the intervening time period that made President Saigo decide not to extend. Chair Thorndike responded, saying he and Trustee Sevcik thought sharing the outcome of the consultations with President Saigo was the honorable thing to do. So, they told President Saigo what they heard during the consultations, he made the decision to complete the term of his contract but not seek an extension, and he advised his cabinet of that decision.

Trustee Sevcik said she spent time with President and Mrs. Saigo and believes the board needs to treat the President with respect as it goes forward. He is a valuable resource. She said the board might not find someone better than President Saigo but constituents want the board to find someone to carry on his legacy.

Recognizing her expertise, Chair Thorndike invited Ginny Lang to share any thoughts and recommendations she had. Ms. Lang worked at the University of Oregon on governance issues for four years and now works with university presidents to maximize their effectiveness in Salem. The University of Oregon recently went through a similar process so now there are three examples of presidential searches SOU can examine. From a broad brush approach, she thought the ideas being discussed were on target and that we needed a small group to work through the processes. There is a wide variety in the types of search firms. She mentioned that the University of Oregon did a proactive recruiting search that was confidential and it worked well.

Trustees Nootenboom, Slattery and Nicholson volunteered to be on the working group. However, given Trustee Nootenboom's lack of long-term availability and that the working group would constitute a quorum of the Finance Committee, he excused himself and Trustee Bodager

volunteered in his stead. The working group composition would consist of Trustees Hennion, Slattery, Nicholson and Bodager. Trustee Hennion advised the group that she would be unavailable to meet in person until after November 4 but would be available by telephone and email. Mr. Catz reiterated that the group could include non-board members.

Chair Thorndike read a proposed motion that the SOU Board of Trustees form a working group to engage in information gathering and reporting to the board regarding the Southern Oregon University presidential search as discussed today; the presidential search working group shall exist until the board determines there is no longer a need for the group or until a new president is hired for Southern Oregon University; the board members on this group shall be Lyn Hennion, Paul Nicholson, Dennis Slattery and Sheri Bodager, with non-trustee group members to be identified; the work of this group will inform the board's approach regarding the search for the president of the institution. Mr. Catz opined that the group should be referred to as an ad hoc committee rather than a working group. So moved by Trustee Vincent, Trustee Steinman seconded the motion. Trustee AuCoin opposed and all other trustees approved the motion.

SOU President's Contract

Referring to President Saigo's decision not to seek a contract extension, Trustee Sevcik acknowledged how difficult it was for everyone. As a show of respect, she made the motion to remove "Interim" from President Saigo's title and from his contract. Trustee Slattery seconded the motion and it was approved unanimously. Mr. Catz advised, the board would need to advise the governor's office of this decision.

Trustee Nicholson asked if they needed to take action to change the president's contract beginning in July 2016 to reflect the expectation that the contract will continue until a new president takes office. Mr. Catz advised that an amendment would be needed but could be done at a later date. Chair Thorndike mentioned that President Saigo is an at-will employee, meaning upon 30-days notice from either party the employment can be changed.

Trustee Sayre stressed the short timeline and said they do not want to waste any time on the presidential search process. Chair Thorndike suggested pursuing courses of action in parallel so the search is not delayed. Mr. Catz said board authorization is not necessary for the issuance of an RFP but the terms of the contract would be subject to board approval. Trustee Hennion would prefer to have a consultant help them at the outset then issue an RFP later in the process. Mr. Morris said this could be done and a consultant could be hired through a process other than an RFP. Trustee Nicholson expressed concern over the timeline and Mr. Catz said SOU could hire a search firm using an RFP even without board action.

Adjournment

Chair Thorndike adjourned the meeting at 4:34 p.m.

Public Comment

Diversity and Inclusion: Overview and Update

Diversity and Inclusion at SOU

2015-2016

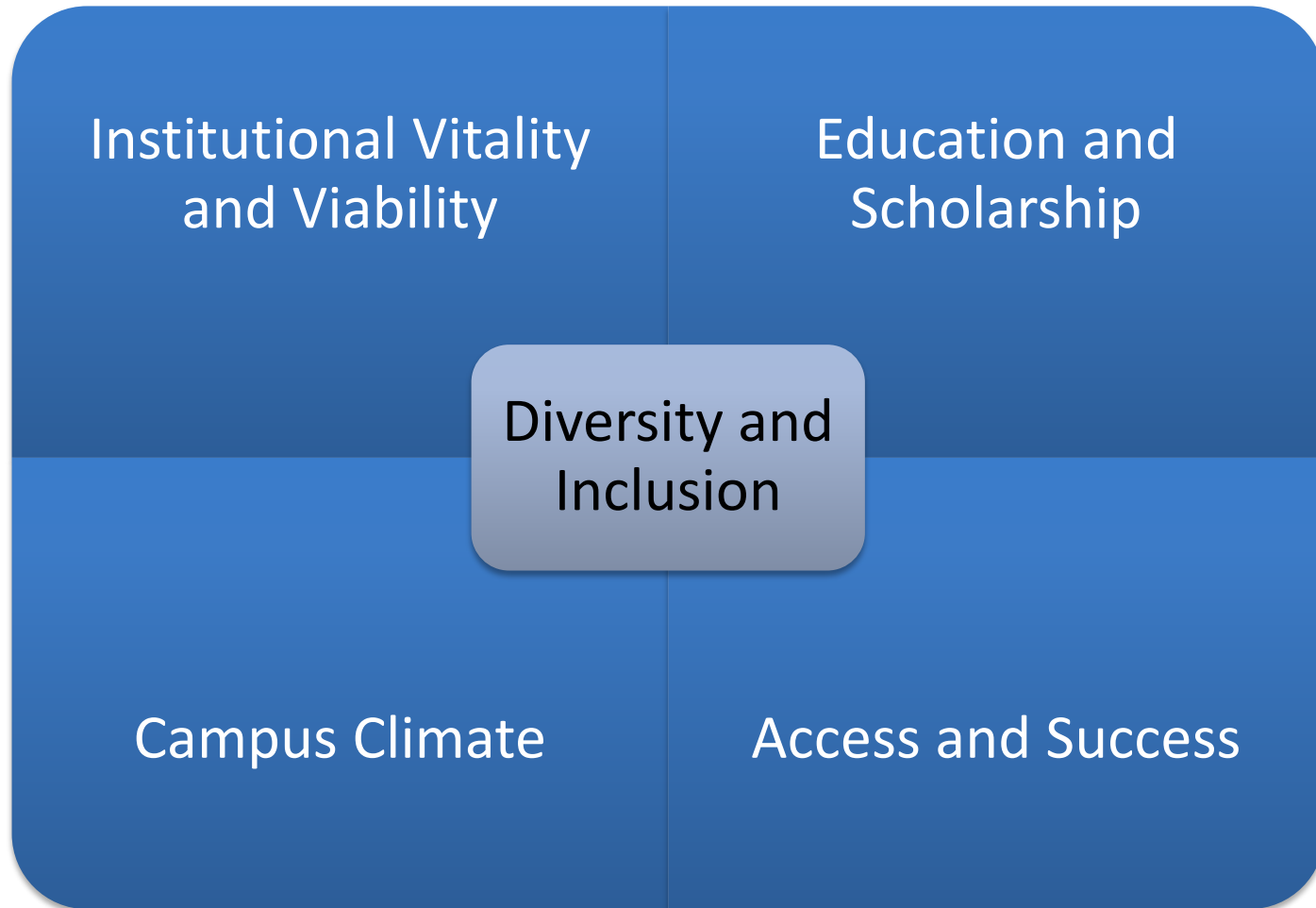
A Little about Myself...

- Hometown
- Identity
- College Education
- Positions
- Passions
- Approach to difference

Diversity, Inclusion, and Equity

- What do we mean by diversity and who is represented?
 - Statement on Diversity
- Understanding Inclusion
- Pursuing Equity
- Partnerships
 - Internal and External

Diversity Framework



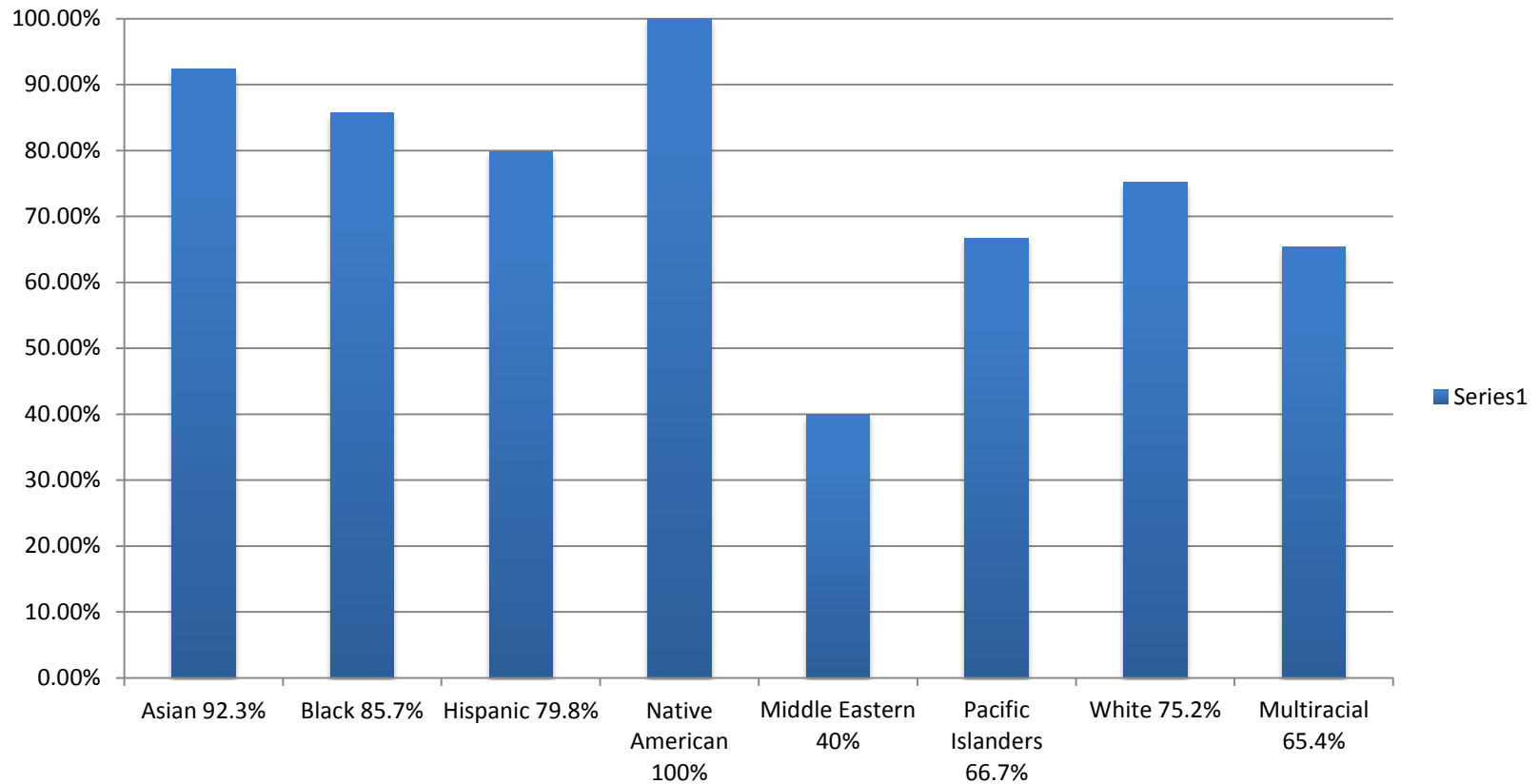
Institutional Vitality and Viability

- Policies and procedures
- What are procedural barriers to an inclusive community
- Past Projects
 - Diversity Statement
 - Diversity Trainings
 - Title IX training and accountability
 - Chosen pronouns option
 - MCOD conversations

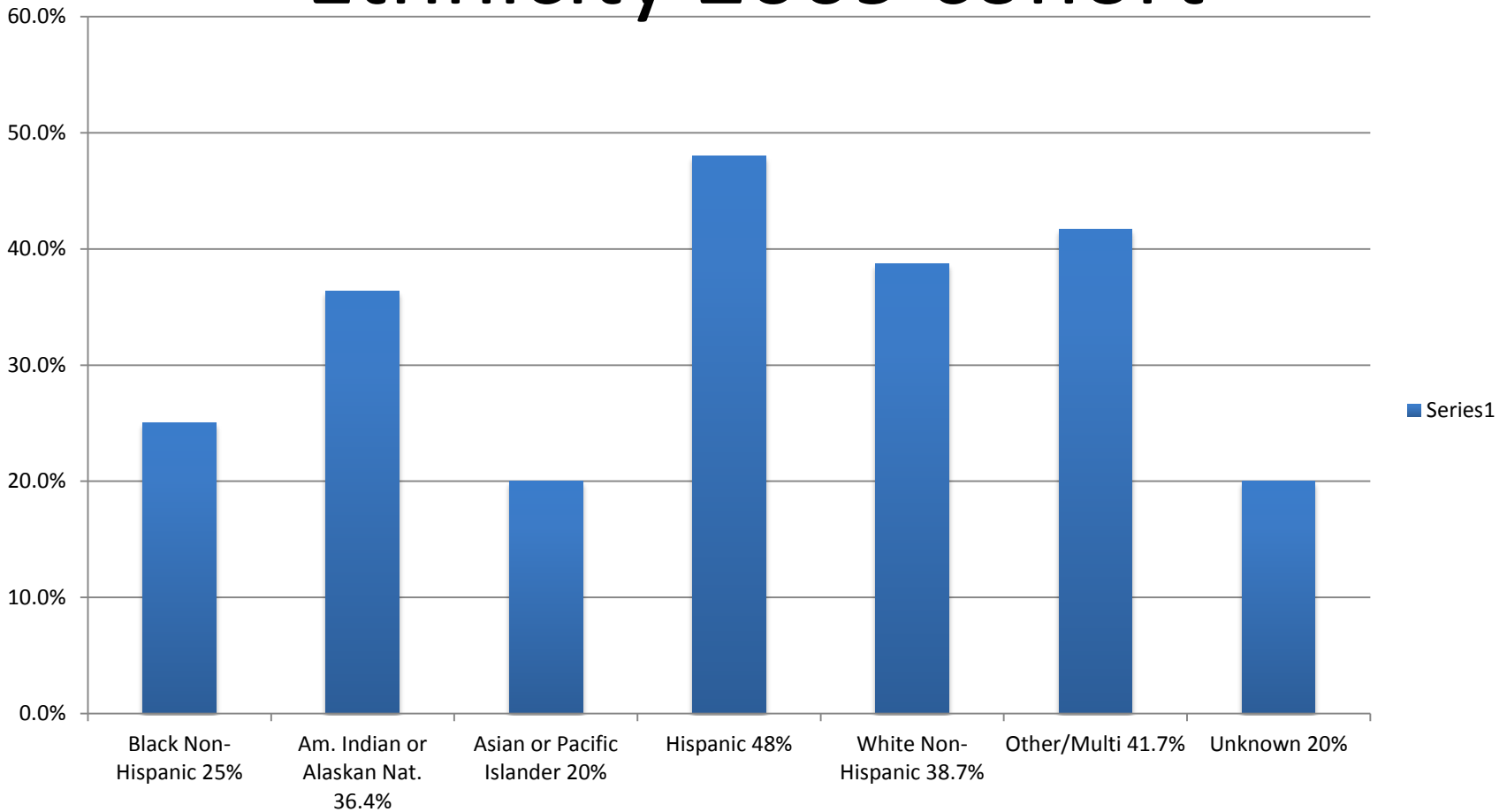
Institutional Vitality and Viability

- Current Projects
 - Nondiscrimination Policy
 - Diversity Advocates
 - Conversations on Diversity and Inclusion in recruitment and retention of Employees
 - Monitoring Demographic Data
 - Conversations on Diversity Plan
 - Diversity Training Curriculum

Retention Rates by Race and Ethnicity 2013-14



Graduation Rates by Race and Ethnicity 2009 cohort



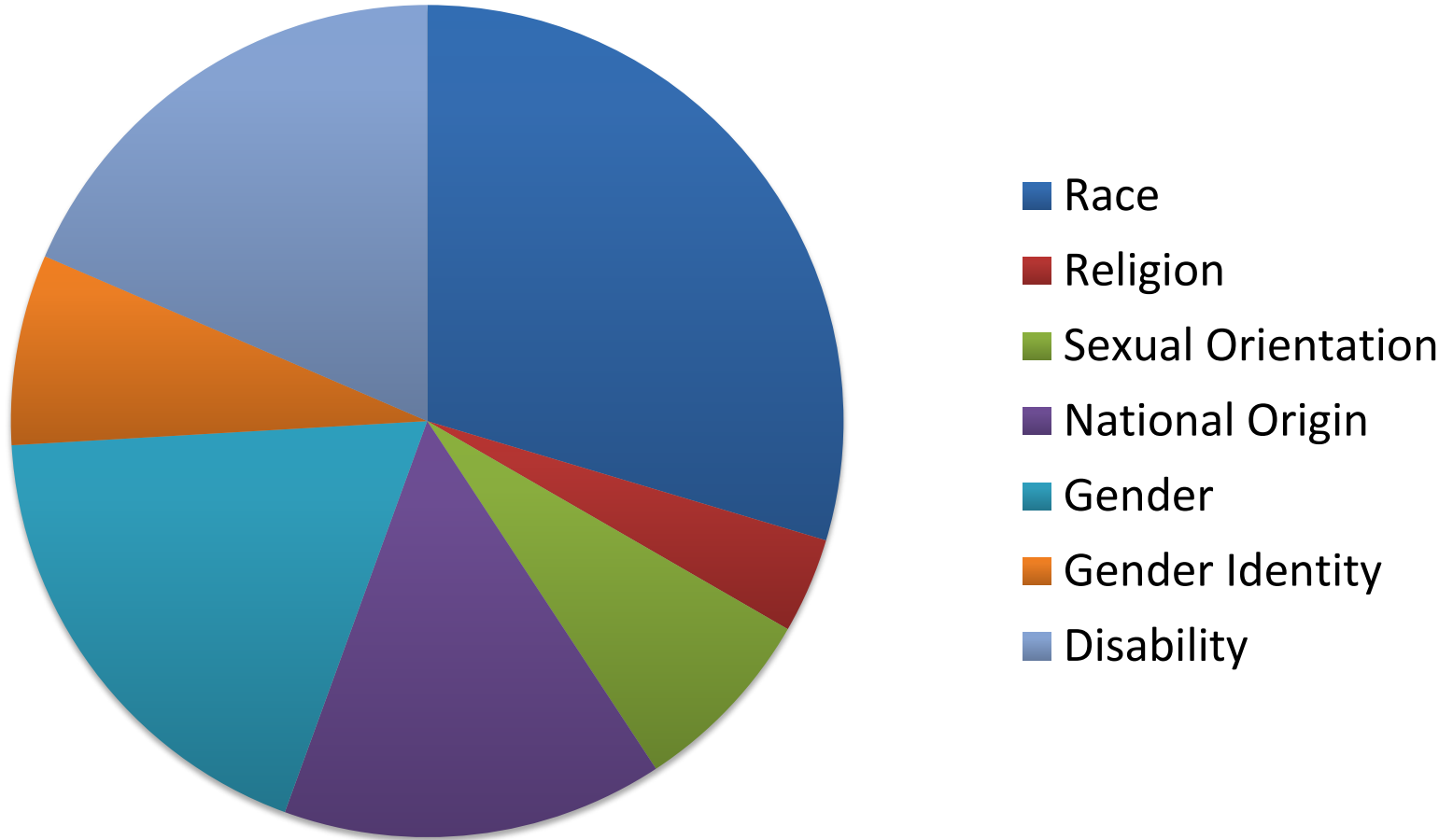
Employees by Race/Ethnicity

Year	Employees of Color	White Employees
2011	8.60%	90.87%
2012	7.84%	91.65%
2013	7.4%	91.43%
2014	9.79%	89.02%
2015	10.89%	87.74%

Campus Climate

- Assessment of Climate
 - Climate Assessments, Focus Groups
- Programs, Discussions, Speakers
 - Diversi-teas, Race Awareness Week, Luau, Cornel West, Lee Mun Wah, Laverne Cox, SOPride, Take Back the Night
- Provide Safer Spaces for underrepresented populations to gather
 - Employees of Color Luncheon and LGBTQ Employees Luncheons
 - Identity Based Resource Centers
- Community Leadership Conversations
- Respond to incidents
 - Bias Response Team for Students

24 Fall Reports*



Campus Climate

- Challenges to Climate
 - Micro-aggressions and Freedoms...
 - Some people do not wish to hear about their missteps
 - External Forces and Historical Legacies
 - Communication Challenges
 - Disengagement
 - Imposter Syndrome

Education and Scholarship

- Focus is currently on Curriculum but could encompass Research and Pedagogical ideas and issues
- Diversity and Global Awareness Requirement
 - Understand institutions, assumptions and values from national and global context
 - 73 Courses offered this year
 - Conversations on whether this enough
 - Explicitly bridging underrepresented students to certain courses

Education and Scholarship

- Programs and Supports
 - Native American Studies
 - Gender, Sexuality, and Women’s Studies
 - Instructional Institutes
 - Webinars

Access and Success

- Focus on the efforts for outreach, recruitment, retention, and persistence to graduation for underrepresented students.
- Pre-College Programs
 - Academia Latina
 - Konoway Nika Tilicum
 - Pirates and Bulldogs to Raiders
 - Cesar Chavez Leadership Conference
 - Latino Family Day

Access and Success

- College Efforts
 - Diversity Scholarship
 - Success at Southern (TRiO)
 - McNair Scholars
 - Disability Resources and UCAM
 - First Year Mentors
 - International Programs
 - Learning Commons

Access and Success

- 5 identity-based clubs and organization
 - Black Student Union
 - Latino Student Union
 - Ho’opa Hawaii Club
 - Native American Student Union
 - International Student Association
- Identity-based Resource Centers
 - Multicultural Resource Center
 - Queer Resource Center
 - Veterans Resource Office
 - Women’s Resource Center

Graduation Celebrations

- Lavender Graduation
- MRC Graduation Celebration
- Success at Southern Graduation Celebration



Equity and Empowerment Lens

At its core, it is a set of principles, reflective questions, and processes that focuses at the individual, institutional, and systemic levels of racial equity by:

- deconstructing what is not working around racial equity;
- reconstructing and supporting what is working;
- shifting the way we make decisions and think about this work; and
- healing and transforming our structures, our environments, and ourselves.

PURPOSE

PEOPLE

Who is positively and negatively affected (by this issue) and how?

How are people differently situated in terms of the barriers they experience?

Are people traumatized/retraumatized by your issue/decision area?

Consider physical, spiritual, emotional and contextual effects

PLACE

How are you/your issue or decision accounting for people's emotional and physical safety, and their need to be productive and feel valued?

How are you considering environmental impacts as well as environmental justice?

How are public resources and investments distributed geographically?

ISSUE/ DECISION

PROCESS

How are we meaningfully including or excluding people (communities of color) who are affected?

What policies, processes and social relationships contribute to the exclusion of communities most affected by inequities?

Are there empowering processes at every human touchpoint?

What processes are traumatizing and how do we improve them?

POWER

What are the barriers to doing equity and racial justice work?

What are the benefits and burdens that communities experience with this issue?

Who is accountable?

What is your decision-making structure?

How is the current issue, policy, or program shifting power dynamics to better integrate voices and priorities of communities of color?

Equity and Empowerment Lens

Purpose Towards Racial Equity

In a purpose-driven system, all partners at all levels align around transformative values, relationships and goals moving towards racial equity, integrating an emphasis on doing less harm and supporting actions that heal and transform.

Defining An Individual's Purpose:

- ⇒ What is my purpose towards achieving racial equity?
- ⇒ What gets in the way of maintaining my purpose towards racial equity?
- ⇒ What do I need to maintain my purpose?
- ⇒ Purpose towards racial equity is also further clarified by our positions in the hierarchy.
 1. If you are a manager or other type of leader with positional authority, how can you further clarify your purpose so that you are leveraging the power you have?
 2. If you are at a lower level in the organization, what do you need from leadership in order to feel valued and a key contributor to the organizational purpose?
 3. How does your role and your purpose influence and align with?

Defining An Institution's Purpose:

- ⇒ What is our institution's purpose towards racial equity?
- ⇒ How are we clearly defining that purpose, and where and how do we communicate that?
- ⇒ How can we ensure that our purpose is integrated into our policies, procedures, and practices?
- ⇒ How can we give our employees a greater sense of meaning in what they do around racial equity, so they feel more enthusiastic and hopeful about their work?
- ⇒ In what practical ways can our institution add more value around racial equity and do less harm?
- ⇒ Is racial equity the central theme in your recruitment and retention efforts?
- ⇒ Do you have the right people around you to achieve your purpose? If not, how can you move towards this reality?
- ⇒ How do you ensure individuals work together with leaders to align to the institution's purpose towards racial equity?

Where are we now?

- Strengths
- Top 25 LGBTQ University in the Country
- Cutting edge for Title IX Response
- Student-centered approaches that foster sense of belonging
- Increasing racial and ethnic demographics, for students, faculty and staff

Where are we now?

- Barriers
 - Capacity, (Time and People)
 - Priorities
 - Fear
- Weakness
 - University can be slow to change
 - Graduation Rate is lower than we would like for anyone
 - Engagement could be stronger
 - Morale needs to be improved

Requests for the Future

- Cultural Humility in Leadership
- Maintain Diversity and Inclusion as a Priority
 - Imbedded through the fabric of the university
- Continue to ask questions about Diversity
- Make space for Student Voice
- Engage in Diversity Efforts

Southern Oregon University 2015 Strand J Courses– Diversity and global awareness

*ANTH 310	<i>American Culture</i>	4
*ANTH 317	<i>Pacific Cultures</i>	4
*ANTH 318	<i>Native North America</i>	4
*ANTH 319	<i>Cultures of the World</i>	4
*ANTH 334	<i>Native North America: Anthropological Perspectives on the American Indian Frontier</i>	4
*ANTH 336	<i>Topics in Global/Local Interconnections</i>	4
ARTH/MUS 311	Art and Music of the 20th Century to Present	4
ARTH 343	Globalization and Contemporary Art	4
ARTH 344	Art, Culture, and Politics	4
ARTH 431	Italian Renaissance Art and Culture	4
ARTH 450	Race, Gender, and Ethnicity in Art	4
BA 447	International Marketing	4
BA 475	Organizational Behavior	4
BA 476	Business Ethics	4
BA 477	International Business	4
CCJ 361	Juvenile Delinquency	4
COMM 441	International Communication	4
COMM 460A	Women Transforming Language	4
COMM 460C	Culture, Identity, and Communication	4
ED/ENG 398	Teaching Global Perspectives through Children's Literature	4
ED 438	Children Around the World	3
ED 460	Multicultural Education	3
ED 477	Honors Multicultural Education	3
ENG 341	Class, Culture, and Feminism	4
ENG/ED 398	Teaching Global Perspectives through Children's Literature	4
ENG 443	Chicana/o Subjectivities and Religious Perspectives	4
ENG 447	<i>Various Topics</i>	4
ENG 448A	Major Authors: Toni Morrison	4
ENG 454	American Multicultural Literature	4
ENG 455	World Literature: Contemporary Chinese OR Contemporary West African	4
ENG 457	Postcolonial Literature and Theory	4
ENG 491	History of the English Language	4
FR 314	La France Contemporaine	4
FR 427	Noncontinental Francophone Literature	4
GEOG 330	The Geography of Latin America	4
GEOG 336	The Geography of East and Southeast Asia	4
GEOG 338	The Geography of Central and Southwest Asia	4
GL 301	German Culture, Conversation, and Composition	4
GSWS 302	Contemporary US Women's Movements	4
GSWS/SOAN 343	Gender and the Body	4
*GSWS/SOC 343	<i>Gender and the Body</i>	4
GSWS 417	Sexual Politics in U.S. History	4
HON 315	Art, Culture and Humanities	4
HON 319	Science, Sustainability and Nature	4
HSE 303	House Experience III: University Integratons - Diversity and Global Awareness	4
HST 320	Religion in America	4
HST 380	War in the Modern World	4
IS 350	World Politics	4
IS 370	Topics in International Political Economy	4
IS 380	Regional and Country Studies	4
MUS/ARTH 311	Art and Music of the 20th Century to Present	4
MUS 360	The History of Music: Medieval and Renaissance	4
MUS 361	The History of Music: Baroque and Classical	4

MUS 362	The History of Music: Romantic and Contemporary	4
NAS 375	Representing 'El Indio' in Latin American Anthropology, Literature and Culture	4
NAS 440	American Indian Identities	4
PSY 313	Human Behavior and Film	4
PSY 369	Human Sexuality	4
PSY 432	Personality	4
PSY 479	Abnormal Psychology	4
SOAN 310	American Culture	4
SOAN 318	Native North America	4
SOAN 319	Cultures of the World	4
SOAN 333	Global Culture, Media, and Politics	4
SOAN 334	Anthropological Perspectives on the Native American Frontier	4
SOAN 336	Topics in Global/Local Interconnections	4
SOAN 340	Sociology of Gender	4
SOAN/GSWS 343	Gender and the Body	4
*SOC 333	<i>Global Culture, Media and Politics</i>	4
*SOC 340	<i>Sociology of Gender</i>	4
*SOC/GSWS 343	<i>Gender and the Body</i>	4
TA 349	Fashion Through the Centuries	4
TA 458	Topics in Drama	4

President's Report

Committee Reports

- **Executive and Audit**
- **Finance**
- **Academic and Student Affairs**

Student Leadership Report

Faculty Senate Report

Presidential Search Update and Committee Appointments

Presidential Contract Amendment

Audited Financial Statements

SOUTHERN
OREGON
UNIVERSITY

2015 ANNUAL
FINANCIAL REPORT



SO | Southern **OREGON**
U | **UNIVERSITY**



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State Board of Higher Education

David Yaden, Chair	Lake Oswego
James Baumgartner	Portland
James L. Francesconi	Portland
Lisa J. Graham	Bend
Brittany Kenison	Salem
James E. Middleton	Bend
Kelly Minty Morris	Klamath Falls
David H. Nelson	Pendleton
Emily J. Plec	Monmouth
William Thorndike	Medford
Shea Washington	Portland

Southern Oregon University Executive officers

Roy H. Saigo President
Craig Morris Vice President for Finance and Administration
Susan Walsh Provost & Vice President for Academic and Student Affairs
Eric Baird Vice President for Development and Executive Director, SOU Foundation

MESSAGE FROM THE PRESIDENT



It is my pleasure to report that fiscal year 2014-2015 comes to a conclusion with Southern Oregon University in better financial standing than it has been in some time. Thanks to the collective efforts and sacrifices of many, SOU is now well into our second year under retrenchment restrictions and I am happy to report that we have at least met every condition while exceeding many. Our retrenchment plan called for a fund balance of 7.6 percent to end the 2014-2015 fiscal year. I'm pleased to announce that our ending fund balance exceeded that requirement and reached 9.1 percent.

This is an exciting time for SOU, as we spent considerable time and energy during the 2014-2015 year working with the state to ensure that the SOU Board of Trustees was prepared to take over a governance role for the University on July 1 of this year. In an effort to better understand the University's finances and budget process, the Board's Finance Committee met numerous times during the 2014-2015 year with SOU Vice President of Finance and Administration Craig Morris and key members of his staff. Due to this hard work and diligence, the Board was fully prepared for their role as fiduciary trustees when they took over governance on July 1.

College affordability remains a top priority for SOU, our students, and their families. With additional funds made available from the Oregon Legislature during its 2015 session, we have prioritized tuition remissions and additional student services designed to increase retention and graduation rates.

In order to help reach the state's ambitious 40-40-20 goals, SOU continues to serve a large number of first-generation and low-income students. We also saw an increase in the number of minority students on campus during 2014-2015 compared to the previous year. Our enrollment of transfer students from Oregon

community colleges increased from the previous year as well, illustrating our commitment to educating all Oregonians who wish to pursue a bachelor's or master's degree at SOU.

SOU continues to evaluate course and program offerings to ensure that we are helping to meet the state's educational and workforce development needs. In response to workforce demands of our region as well as student input, SOU has launched new degree programs in the past year, including an Innovation and Leadership degree completion program. This multidisciplinary bachelor's degree program for working professionals is designed with those who are emerging leaders within their organizations and communities. During the 2014-2015 year we also developed a new Bachelor of Fine Arts in Creative Writing program which was launched in fall 2015. This program expands upon what was previously a minor offering.

The 2014-2015 fiscal year was also a strong year for philanthropy, as the SOU Foundation received a total of \$1.9 million in charitable giving. The SOU Foundation also transferred \$3.2 million in endowment distribution and program support.

Regarding facilities, we continue to remodel and upgrade the University's physical plant. The construction boom that we have been experiencing in recent years continued, as most of the construction on a \$22 million remodel of our Science Building was completed. After being closed during the construction phase, students began learning and researching in new, state-of-the-art laboratories and classrooms when classes began this fall. Additionally, our national champion football team and other outdoor sports programs are now competing on a new playing surface and track, which were installed at Raider Stadium in fiscal year 2014-2015. Three additional large capital construction projects are in various stages of planning and are scheduled to break ground in 2016 and 2017.

With strong financial management by our administration and Board, SOU will continue to work to maintain affordability. As Southern Oregon's choice for post-secondary education for 143 years, we look to our strong record of service to the state, students, and community, as well as our exciting and promising future as we plan and build for the next 143 years.

Southern Oregon University

During the 2014-15 fiscal year, SOU continued to benefit from private philanthropic contributions. Gifts and pledges to the SOU Foundation totaled just shy of \$2 million. Nearly 60% of all gifts came from foundations and other individuals in the region who believe in the future of Southern Oregon University. Commitments from alumni and corporations made up the balance of support. The foundation's endowment also grew, surpassing the \$25 million mark for the first time in its history.

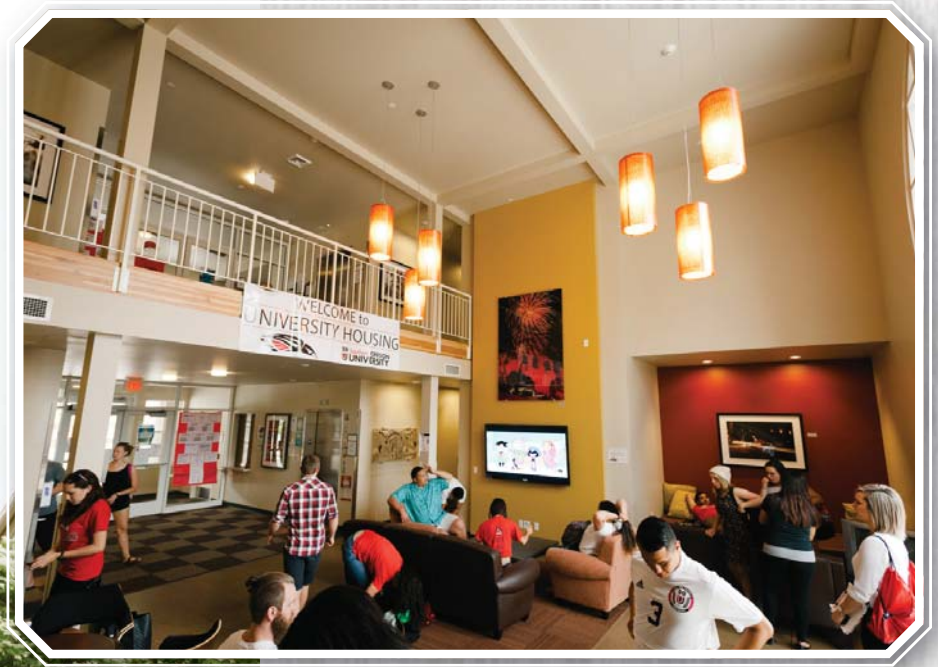
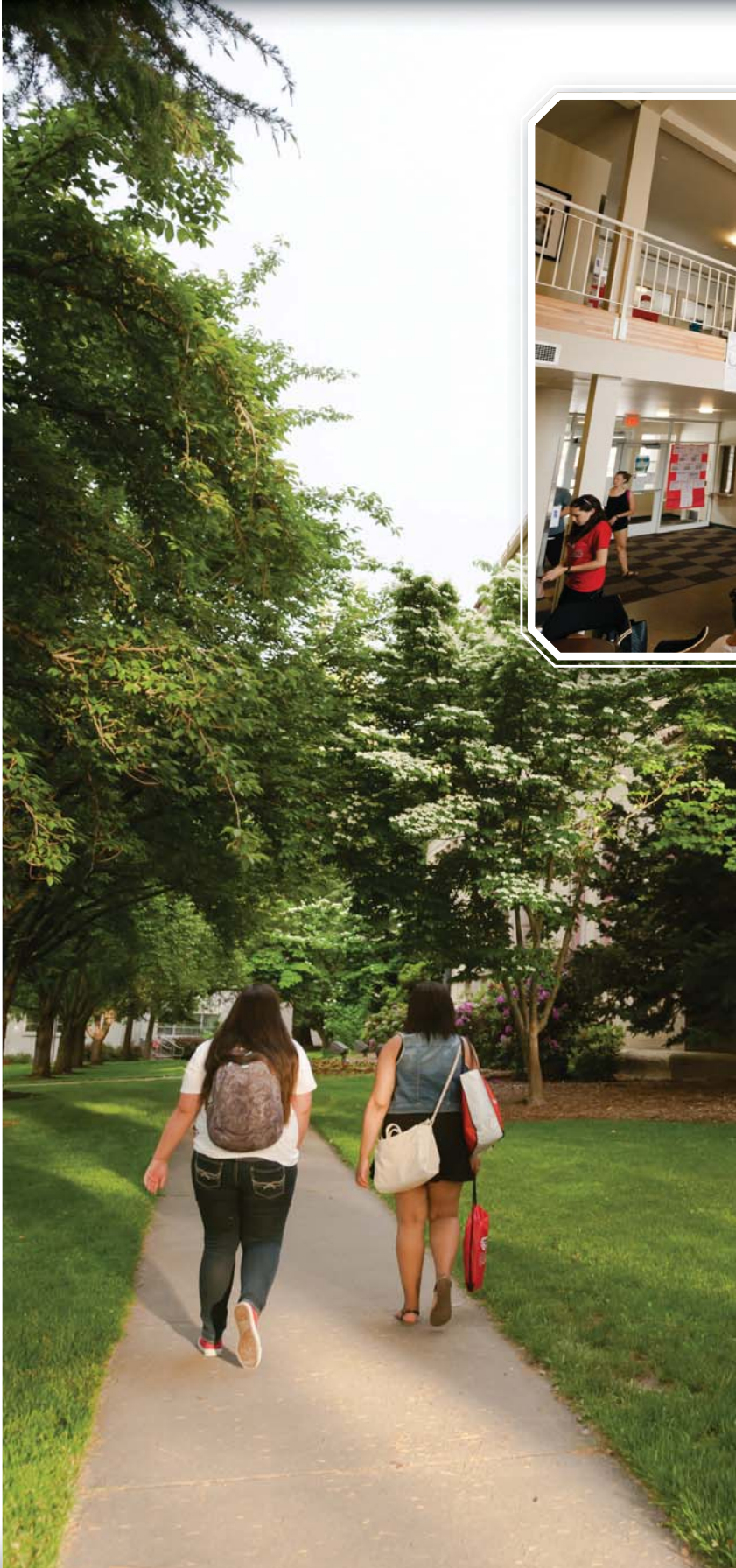
Highlights of the year in philanthropy include:

- The SOU Foundation distributed more than \$3.2 million to the university through earnings on its endowment as well as program support. In just five years, this amount has increased by nearly \$1 million.
- The inaugural Count Me In campaign to create new scholarships for students raised more than \$214,000 in just 100 hours. The campaign's success was the result of a social media campaign that quickly turned into a calling for SOU students, faculty members, community leaders, alumni, and businesses. Nearly 450 donors participated, creating 100 scholarships for students with high financial need. Funds raised during the campaign immediately helped 40 students during the 2014-15 academic year. Another 50 students were to benefit in the 2015-16 academic year.
- More than \$1 million in scholarship support was distributed by the SOU Foundation to students for the first time in history. Donors continue to see scholarships as a critical way to help students succeed and have prioritized gifts to support them.
- Among the foundation's largest gifts during the year was a new Concert Steinway D (with two actions) valued at more than \$150,000. The concert piano was dedicated during the university's annual Tutunov Piano Series.
- Chamber Music Concerts was heavily supported by donors during the year, with more than \$250,000 going to one of the university's oldest musical series.
- 2014-15 was a watershed year for SOU athletics, finishing sixth of 252 member schools in the NAIA Learfield Sports Directors' Cup standings. Fans supported SOU athletes on the field and in the classroom, providing more than \$700,000 in support. The most significant support came from the annual Lithia/Raider Club Golf Shootout, which brought in more than \$300,000 for the first time.

2014-15 TOP UNIVERSITY ACCOMPLISHMENTS



- The number of applications and admitted students both reached three-year highs for fall 2014, as did the percent of admitted students. The University also experienced a three-year high in fall 2014 in the number of minority students enrolled as well as the number of new admits from Oregon community colleges, illustrating our commitment to providing access to quality higher education for all Oregonians.
- During the fiscal year 2014-2015, SOU graduated another large class, conferring nearly 1,000 degrees, including more than 220 master's degrees.
- Worked with regional high schools and community colleges to develop creative strategic partnerships and opportunities to effectively and efficiently deliver higher education services throughout our region.
- Welcomed the institution's inaugural Board of Trustees.
- In 2014, we embarked on a retrenchment plan in order to better ensure the financial stability of Southern Oregon University. Our fiscal year 2014-2015 ending fund balance as a percent of revenues exceeded earlier retrenchment plan projections.
- Fall to fall retention of first-time, full-time students increased year-over-year from 68 percent to 74 percent. Retaining our students is not only a top academic priority, but also saves substantial money, as it costs much more to recruit and attract a new student than to keep a student once they are already on campus.
- Launched the "Count Me In" campaign, a new, 100-hour social media-driven initiative that raised more than \$210,000 in new scholarships for students while attracting donations from more than 400 alumni, faculty, staff, students, and community members, many of whom were first-time donors. The campaign also raised awareness of SOU's distinctive programs and commitment to student success.
- The Honors College program had an extremely successful year, generating approximately 100 qualified applicants for just 25 open positions. Those who were not in the top 25 were offered partial scholarships. Of 34 students who were contacted about a partial scholarship when their Honors College application was denied, 33 responded positively and attended SOU.
- Launched the Oregon Center for the Arts at Southern Oregon University. The Oregon Center for the Arts brings creatives together to practice their individual artistic passions while inspiring one another across the disciplines. The Oregon Center for the Arts is home to multiple academic programs, including Creative Writing, Dance and Movement, Music, Theatre, and Emerging Media and Digital Arts.
- Won the NAIA National Championship in football and had SOU's highest-ever ranking in the NAIA Director's Cup, which is awarded annually to the nation's best overall collegiate athletics program.
- Named one of the top 25 LGBTQ-Friendly campuses in the United States by Campus Pride.



Capital Projects Update

Student Recreation Center (under construction)

- The Student Recreation Center will provide approximately 47,000 square feet of space, including two multipurpose courts, fitness area, suspended running track, climbing wall, and offices and space for SOU's Outdoor Program. It was created by a referendum of the student body and funded with student fees.

McNeal Pavilion (under construction)

- McNeal Pavilion is home to SOU's Physical Education and Athletics departments. This project will include classrooms, competition gymnasium, locker rooms, sports medicine facilities, ticket office, and offices for the Physical Activity and Leadership program and Athletic department. This project is being funded by the State of Oregon. In order to realize efficiencies and cost savings, construction of the Student Recreation Center and McNeal Pavilion remodel will take place simultaneously and on a shared footprint.

Theatre Building (planning has begun)

- This project includes an addition and remodel to the existing facility. It features two new teaching studios and new offices. Existing classrooms and lobby area will receive significant improvements. This project is being funded by the State of Oregon.
- Jefferson Public Radio (JPR), a department of SOU, will construct a 4,500 foot addition to the Theatre Building in order to relocate from its current space and expand educational opportunities for students. The JPR section of this project is being funded by supporters of Jefferson Public Radio.



INDEPENDENT AUDITORS' REPORT

Members of the Board

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of Southern Oregon University (the University), an institution of higher education of the Oregon University System (the System), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Southern Oregon University Foundation (the Foundation), which represents 100 percent of the assets, net assets, and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Foundation, a discretely presented component unit, were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type

activities and the discretely presented component unit of the University as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1 (A), the financial statements present only the University, and do not purport to, and do not, present fairly the financial position of the System as of June 30, 2015, the changes in its financial position, or its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Note 1(B), to the financial statements, the University implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68 – *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, for the year ended June 30, 2015, which represents a change in accounting principle. As of July 1, 2014, the University's net position was restated to reflect the impact of adoption. A summary of the restatement is presented in Note 1(S).

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of the University's Contributions, the Schedule of the University's Proportionate Share of the Net Pension Asset, and the Schedule of Funding Status of Other Postemployment Benefits listed as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

The Message from the President has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2015, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and

other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Greenwood Village, Colorado
December 15, 2015

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STATEMENT OF NET POSITION
SOUTHERN OREGON UNIVERSITY

As of June 30,	2015
	(In thousands)
ASSETS	
Current Assets	
Cash and Cash Equivalents (Note 2)	\$ 7,133
Collateral from Securities Lending (Note 2)	1,695
Accounts Receivable, Net (Note 3)	5,698
Notes Receivable, Net (Note 4)	986
Inventories	28
Prepaid Expenses	316
Total Current Assets	15,856
Noncurrent Assets	
Cash and Cash Equivalents (Note 2)	42,351
Investments (Note 2)	20,751
Notes Receivable, Net (Note 4)	17,154
Net Pension Asset (Note 13)	4,707
Capital Assets, Net of Accumulated Depreciation (Note 5)	96,864
Total Noncurrent Assets	181,827
Total Assets	\$ 197,683
DEFERRED OUTFLOWS OF RESOURCES	
	\$ 3,434
LIABILITIES	
Current Liabilities	
Accounts Payable and Accrued Liabilities (Note 6)	\$ 9,064
Deposits	3,186
Obligations Under Securities Lending (Note 2)	1,695
Current Portion of Long-Term Liabilities (Note 8)	7,227
Unearned Revenues	3,771
Total Current Liabilities	24,943
Noncurrent Liabilities	
Long-Term Liabilities (Note 8)	140,309
Total Noncurrent Liabilities	140,309
Total Liabilities	\$ 165,252
DEFERRED INFLOWS OF RESOURCES	
	\$ 9,082
NET POSITION	
Net Investment in Capital Assets	\$ 12,173
Restricted For:	
Nonexpendable Endowments	1,812
Expendable:	
Gifts, Grants and Contracts	1,595
Student Loans	3,180
Capital Projects	3,544
Debt Service	2,825
Unrestricted	1,654
Total Net Position	\$ 26,783

The accompanying notes are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

SOUTHERN OREGON UNIVERSITY FOUNDATION - COMPONENT UNIT

As of June 30,	2015
	(In thousands)
ASSETS	
Cash and Cash Equivalents	\$ 830
Contributions, Pledges and Grants Receivable, Net	106
Investments (Note 2)	25,934
Prepaid Expenses and Other Assets	36
Property and Equipment, Net	1,972
Total Assets	\$ 28,878
LIABILITIES	
Accounts Payable and Accrued Liabilities	\$ 15
Accounts Payable to University	674
Obligations to Beneficiaries of Split-Interest Agreements	512
Deposits and Unearned Revenue	210
Total Liabilities	\$ 1,411
NET ASSETS	
Unrestricted	\$ 1,279
Temporarily Restricted	6,682
Permanently Restricted	19,506
Total Net Assets	\$ 27,467

The accompanying notes are an integral part of these financial statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

SOUTHERN OREGON UNIVERSITY

For the Year Ended June 30,

2015

(In thousands)

	2015
	(In thousands)
OPERATING REVENUES	
Student Tuition and Fees (Net of Allowances of \$9,592)	\$ 28,043
Federal Grants and Contracts	1,488
State and Local Grants and Contracts	748
Nongovernmental Grants and Contracts	3,821
Educational Department Sales and Services	2,457
Auxiliary Enterprises Revenues (Net of Allowances of \$586)	10,765
Other Operating Revenues	1,019
Total Operating Revenues	48,341
OPERATING EXPENSES	
Instruction	25,942
Research	679
Public Service	2,995
Academic Support	5,683
Student Services	4,448
Auxiliary Programs	14,675
Institutional Support	7,582
Operation and Maintenance of Plant	3,979
Student Aid	7,522
Other Operating Expenses	4,384
Total Operating Expenses (Note 11)	77,889
Operating Loss	(29,548)
NONOPERATING REVENUES (EXPENSES)	
Government Appropriations (Note 12)	17,332
Financial Aid Grants	10,556
Investment Activity (Note 10)	440
Gain (Loss) on Sale of Assets, Net	11
Interest Expense	(4,558)
Other Nonoperating Items	4,227
Net Nonoperating Revenues	28,008
Income (Loss) Before Other Nonoperating Revenues	(1,540)
Debt Service Appropriations (Note 12)	2,852
Capital Grants and Gifts	96
Transfers within OUS	749
Total Other Nonoperating Revenues	3,697
Increase in Net Position Prior to Special/ Extraordinary Items	2,157
SPECIAL AND EXTRAORDINARY ITEMS	
Special Item - Change in Entity (Note 9)	11,244
Increase in Net Position After Special/ Extraordinary Items	13,401
NET POSITION	
Beginning Balance	21,976
Change in Accounting Principle	(8,594)
Beginning Balance, Restated	13,382
Ending Balance	\$ 26,783

The accompanying notes are an integral part of these financial statements.

STATEMENT OF ACTIVITIES

SOUTHERN OREGON UNIVERSITY FOUNDATION - COMPONENT UNIT

For the Year Ended June 30,

2015

(In thousands)

CHANGE IN UNRESTRICTED NET ASSETS

REVENUES

Grants, Bequests and Gifts	\$	673
Investment Income, Net		209
Net Assets Released From Restrictions		2,442
Other Revenues		11
Total Revenues		3,335

EXPENSES

University Support		2,447
General and Administrative		438
Fundraising		525
Other Expenses		2
Total Expenses		3,412

Increase (Decrease) In Unrestricted Net Assets (77)

CHANGE IN TEMPORARILY RESTRICTED NET ASSETS

REVENUES

Grants, Bequests and Gifts		1,407
Investment Income, Net		103
Other Revenues		614
Net Assets Released From Restrictions		(2,442)

Increase (Decrease) In Temporarily Restricted Net Assets (318)

CHANGE IN PERMANENTLY RESTRICTED NET ASSETS

REVENUES

Grants, Bequests and Gifts		322
Change in Value of Life Income Agreements		(50)

Increase (Decrease) In Permanently Restricted Net Assets 272

Increase (Decrease) In Total Net Assets (123)

Beginning Balance **27,467**

Ending Balance \$ 27,344

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS
SOUTHERN OREGON UNIVERSITY

For the Year Ended June 30,

2015

(In thousands)

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and Fees	\$ 27,878
Grants and Contracts	6,082
Educational Department Sales and Services	2,457
Auxiliary Enterprises Operations	10,762
Payments to Employees for Compensation and Benefits	(53,078)
Payments to Suppliers	(14,988)
Student Financial Aid	(7,394)
Other Operating Receipts	2,304
Net Cash Provided (Used) by Operating Activities	(25,977)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Government Appropriations	17,332
Financial Aid Grants	10,556
Other Gifts and Private Contracts	4,227
Net Internal Agency Fund Receipts (Payments)	144
Net Transfers Within OUS	749
Cash Transfers Due to Change in Entity	9,797
Net Cash Provided (Used) by Noncapital Financing Activities	42,805

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Debt Service Appropriations	1,909
Capital Grants and Gifts	8
Bond Proceeds from Capital Debt	45,482
Sales of and Adjustments to Capital Assets	(61)
Purchases of Capital Assets	(18,576)
Interest Payments on Capital Debt	(4,271)
Principal Payments on Capital Debt	(13,404)
Net Cash Provided (Used) by Capital and Related Financing Activities	11,087

CASH FLOWS FROM INVESTING ACTIVITIES

Net Sales (Purchases) of Investments	(12,078)
Income on Investments and Cash Balances	167
Net Cash Provided (Used) by Investing Activities	(11,911)

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS **16,004**

CASH AND CASH EQUIVALENTS

Beginning Balance	33,480
Ending Balance	\$ 49,484

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS, continued
SOUTHERN OREGON UNIVERSITY

For the Year Ended June 30,	2015 (In thousands)
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (29,548)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	4,161
Changes in Assets and Liabilities:	
Accounts Receivable	1,571
Notes Receivable	(823)
Inventories	114
Prepaid Expenses	(222)
Accounts Payable and Accrued Liabilities	4,297
Long-Term Liabilities	(31)
Unearned Revenue	394
Pension Expense Related to Net Pension Liability	(5,890)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (25,977)
NONCASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS	
Capital Assets Acquired by Gifts-in-Kind	\$ 88
Increase in Fair Value of Investments Recognized as a Component of Investment Activity	273

The accompanying notes are an integral part of these financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Oregon State Board of Higher Education (Board), a citizen board appointed by the Governor with confirmation by the State Senate, governs the four state-supported institutions of higher learning (institutions) in Oregon. These institutions are known as the Oregon University System (OUS). The law creating the Board was passed in 1929 by the Oregon Legislature and went into effect July 1, 1931. Southern Oregon University (SOU) is one of the four universities that make up the OUS.

The SOU financial reporting entity is reported under the heading of University on the Basic Financial Statements. SOU is located in Ashland, Oregon. The SOU reporting entity also includes one university foundation which is reported as a discretely presented component unit in the SOU Financial Statements. See "Note 19. University Foundation" for additional information relating to this component unit. Organizations that are not financially accountable to SOU, such as booster and alumni organizations, are not included in the reporting entity.

SOU is also reported as one of the four universities that make up OUS and is reported as part of the OUS Annual Financial Report. OUS is a part of the primary government of the State of Oregon (State) and is included as a proprietary (enterprise) fund in the Comprehensive Annual Financial Report issued by the State.

These financial statements present only SOU, including the discretely presented component unit described above, and are not intended to present the financial position, changes in financial position, or, where applicable, the cash flows of the OUS as a whole in conformity with accounting principles generally accepted in the United States of America.

Senate Bill 270 was passed by the Oregon Legislature during fiscal year 2013 which established a pathway for SOU to become an independent public body legally separate from OUS. The State Board of Higher Education conditionally endorsed SOU to become a separate legal entity with an independent governing board effective July 1, 2015. SOU will not be included in the OUS financial reporting entity starting with the fiscal year 2016 financial report. SOU will be included as a component unit in the Comprehensive Annual Financial Report issued by the State starting with the fiscal year 2016 financial report.

B. Financial Statement Presentation

SOU financial accounting records are maintained in accordance with U.S. generally accepted accounting principles as prescribed in applicable pronouncements of the Governmental Accounting Standards Board (GASB). The financial statement presentation required by GASB No. 35 provides a comprehensive, entity-wide perspective of SOU assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, expenses, changes in net position, and cash flows.

In preparing the financial statements, significant interfund transactions and balances between university funds have been eliminated. Unless otherwise stated, dollars are presented in thousands.

Financial statements of the university foundation are presented in accordance with generally accepted accounting principles prescribed by the Financial Accounting Standards Board (FASB).

NEWLY IMPLEMENTED ACCOUNTING STANDARDS

SOU implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, effective for the fiscal year ended June 30, 2015. GASB No. 68 improves accounting and financial reporting by state and local governments for pensions. Concurrently, SOU implemented GASB Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, effective for the fiscal year ended June 30, 2015. GASB No. 71 updates GASB No. 68 and refers to contributions, if any, made to a defined benefit pension plan after the measurement date of the beginning net pension liability. As a result of the implementation of GASB Nos. 68 and 71, SOU restated beginning net position on the Statement of Revenues, Expenses and Changes in Net Position by (\$8,594) and reduced Pension Expense by \$5,890 resulting in a change in Unrestricted Net Position of \$2,704. Ending Net Pension Asset as of June 30, 2015 is \$4,707.

SOU implemented GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, effective for the fiscal year ended June 30, 2015. The objective of this statement is to improve financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. The adoption of GASB No. 69 did not materially impact the SOU financial statements.

UPCOMING ACCOUNTING STANDARDS

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. GASB No. 72 addresses accounting and financial reporting issues related to fair value measurements and is effective for the fiscal year ending June 30, 2016. The adoption of GASB No. 72 is not expected to have a material impact on the SOU financial statements.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. GASB No. 73 improves the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability and is effective for the fiscal year ending June 30, 2017. SOU is analyzing the effects of the adoption of GASB 73 and is uncertain of the impact on the financial statements and related reporting requirements at this time.

In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. GASB No. 74 improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability and is effective for the fiscal year ending June 30, 2017. GASB No. 74 is not applicable to SOU.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB No. 75 improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability and is effective for the fiscal year ending June 30, 2018. SOU is analyzing the effects of the adoption of GASB No. 75 and is uncertain of the impact on

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015 (DOLLARS IN THOUSANDS)

the financial statements and related reporting requirements at this time.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB No. 76 identifies, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP) and is effective for the fiscal year ending June 30, 2016. The adoption of GASB No. 76 is not expected to have a material impact on the SOU financial statements.

C. Basis of Accounting

For financial reporting purposes, SOU is considered a special-purpose government engaged only in business-type activities. Accordingly, the SOU financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when incurred.

D. Cash and Cash Equivalents

Cash and cash equivalents includes highly liquid investments with original maturities of three months or less. Cash and cash equivalents consists of: cash on hand, cash and investments held by the State of Oregon in the Oregon Short-Term Fund (OSTF), cash and cash equivalents restricted for the payment of the current portion of debt service, and cash deposits, if any, of debt proceeds in investment funds held by a trustee.

E. Investments

Investments are reported at fair value as determined by market prices. Unrealized gains or losses on investments are reported as investment activity in the Statement of Revenues, Expenses, and Changes in Net Position.

Investments are classified as noncurrent assets in the Statement of Net Position.

F. Inventories

Inventories are recorded at the lower of average cost or market and consist primarily of supplies in storerooms and physical plant stores.

G. Capital Assets

Capital assets are recorded at cost on the date acquired or at fair market value on the date donated. SOU capitalizes equipment with unit costs of five thousand dollars or more and an estimated useful life of greater than one year. SOU capitalizes real property expenditures that increase the functionality and/or extend the useful life of the real property if total expenditures exceed the capitalization thresholds of \$50 to \$100, depending on the type of real property. Intangible assets valued in excess of \$100 are capitalized. Expenditures below the capitalization threshold and repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

SOU capitalizes interest expense on projects exceeding \$20,000 that are partially or fully funded by XI-F(1) debt or internally generated funds. For the fiscal year ended 2015, SOU capitalized \$75 of interest.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings, 10 to 20 years for infrastructure and land improvements, 10 years for library books and 5 to 11 years for equipment. Amortization terms of intangible assets vary depending on the factors relating to the specific asset. Depreciation is not applied to museum collections, works of art or historical treasures, or library special collections.

H. Unearned Revenues

Unearned revenues include amounts received for tuition and fees, grants and contracts, lease income and auxiliary enterprises activities in which cash has been received, but revenues will be earned in subsequent fiscal year(s).

I. Compensated Absences

SOU accrues a liability for vacation leave and other compensated absences that were earned but not used during the current or prior fiscal year for which employees can receive compensation in a future period. Sick leave is recorded as an expense when paid. There is no payout provision for unused sick leave and no liability exists for terminated employees.

J. Net Pension

The net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense are actuarially determined at the system-wide Plan level and are allocated to employers based on their proportionate share. SOU is included in the proportionate share for all state agencies. The SOU proportionate share of all state agencies is allocated by the Oregon State Department of Administrative Services. The system-wide Plan uses the accrual basis of accounting. For more information, see "Basis of Accounting" in Note 13 on page 28.

K. Deferred Outflows and Deferred Inflows of Resources

Deferred outflows of resources represent the consumption of net position in one period that is applicable to future periods. Deferred inflows of resources represent the acquisition of net position that is applicable to future periods. Deferred outflows and inflows are related to defined benefit pension plans, and to economic loss on refunding of various bonds which is a result of the difference in the carrying value of the refunded debt and its reacquisition price.

L. Net Position

SOU's net position is classified as follows:

NET INVESTMENT IN CAPITAL ASSETS

Net investment in capital assets represents the total investment in capital assets, net of accumulated depreciation and amortization, and outstanding debt obligations related to those capital assets.

RESTRICTED – NONEXPENDABLE

Restricted nonexpendable consists of endowment funds in which donors have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income. The income may either be expended or, depending on the terms of the gift instrument, added to principal.

RESTRICTED – EXPENDABLE

Restricted expendable includes resources which SOU is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

UNRESTRICTED

Unrestricted are resources that may be used at the discretion of the Board. When an expense is incurred that can be paid using either restricted or unrestricted resources, restricted resources are applied first.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015 (DOLLARS IN THOUSANDS)

M. Endowments

Oregon Revised Statutes (ORS) Section 351.130 gives SOU the authority to use the interest, income, dividends, or profits of endowments. Current OUS Board policy is to annually distribute, for spending purposes, four percent of the preceding 20 quarter moving average of the market value of the endowment funds and to maintain the purchasing power of the funds as nearly as prudent investment permits. In accordance with current board policy, the amount available for distribution during fiscal year 2016 is estimated to be \$78. For the year ended June 30, 2015, the net amount of appreciation available for authorization for expenditure was \$385.

Nonexpendable Endowments on the Statement of Net Position of \$1,812 at June 30, 2015, represent the original corpus of true endowment funds and does not include the accumulated gains of those endowments.

In June 2015, \$2,300 in cash and securities were transferred from the Higher Education Endowment Fund into a separately managed account managed by the State Treasury for the benefit of SOU.

N. Income Taxes

SOU is treated as a governmental entity for tax purposes. As such, SOU is generally not subject to federal and state income taxes. However, SOU remains subject to income taxes on any income that is derived from a trade or business regularly carried on and not in furtherance of the purpose for which it was granted exemption from income taxes. No income tax is recorded for the year ended June 30, 2015, because there is no significant amount of taxes on such unrelated business income for SOU.

O. Revenues and Expenses

SOU has classified its revenues and expenses as either operating or nonoperating according to the following criteria:

Operating revenues and expenses generally have the characteristics of exchange transactions. These transactions can be defined as an exchange in which two or more entities both receive and sacrifice value, such as purchases and sales of goods or services. Examples of operating revenues include student tuition and fees, sales and services of auxiliary enterprises, most federal, state and local grants and contracts, and other operating revenues. Examples of operating expenses include employee compensation and benefits, scholarships and fellowships, utilities, supplies and other services, professional fees, and depreciation expenses of capital assets.

Nonoperating revenues generally have the characteristics of nonexchange transactions. In a nonexchange transaction, SOU receives value without directly giving equal value in exchange. Examples of nonoperating revenues include state appropriations, nonexchange grants, gifts, and contributions. Nonoperating expenses are defined in GASB No. 9, *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, *Basic Financial Statement - and Management Discussion and Analysis - for State and Local Governments*. Examples of nonoperating expenses include interest on capital asset related debt and bond expenses.

P. Allowances

Student tuition and fees and campus housing revenues included in auxiliary enterprises revenues are reported net of scholarship allowances. A scholarship allowance is the difference between the revenues charged to students and the amounts actually paid. SOU has two types of scholarship allowances that net into tuition and fees. Tuition and housing waivers,

provided directly by SOU, amounted to \$3,288 for the fiscal year ended 2015. Revenues from financial aid programs (e.g., Pell Grants, Supplemental Educational Opportunity Grants, and Oregon Opportunity Grants) used for paying student tuition and fees and campus housing was estimated to be \$6,401 for the fiscal year ended 2015. Bad debt expense is included as an allowance to operating revenues and is estimated to be \$489 for the fiscal year ended 2015.

Q. Federal Student Loan Programs

SOU receives proceeds from the Federal Direct Student Loan Program. Since SOU transmits these grantor supplied moneys without having administrative or direct financial involvement in the program, these loans are reported in an agency fund. Federal student loans received by SOU students but not reported in operations was \$30,090 for the fiscal year ended 2015.

R. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that could affect the reported amounts of assets and liabilities, revenues and expenses, and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

S. Change in Accounting Principle

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, are effective for fiscal year 2015. The State of Oregon Public Employees Retirement System did not determine the amounts as of June 30, 2013 so restatement of all prior periods presented is not possible. The cumulative effect of applying GASB Nos. 68 and 71 is reported as a restatement of beginning net position as of July 1, 2014 as follows:

	July 1, 2014
Beginning Net Position	\$ 21,976
Less Beginning Net Pension Liability	(10,597)
Plus Beginning Deferred Outflows	2,003
Total Change in Accounting Principle	\$ (8,594)
Restated Beginning Net Position	\$ 13,382

2. CASH AND INVESTMENTS

Substantially all of SOU's current cash and investments were held in custody with the Oregon State Treasury (State Treasury) during fiscal year 2015. These invested assets are managed through several commingled investment pools at the State Treasury. The operating funds of SOU are commingled with cash from other public universities in Oregon and referred to collectively as the Public University Fund (PUF). The investments held in the PUF are managed by the State Treasury and administered by the statutorily defined Designated University, currently Oregon State University. SOU is a participant in the PUF investment pool, along with other public universities from the State of Oregon. Each underlying investment pool has an investment policy and set of objectives identifying risk and return parameters. The Oregon Investment Council (OIC) provides oversight and counsel on the investment policies for each investment pool held in

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015 (DOLLARS IN THOUSANDS)

the PUF.

In general, deposits and investment securities as described below, are exposed to various risks such as credit, concentration of credit, custodial credit, interest rate and foreign currency. Although the objective of each investment pool is to preserve capital within defined risk parameters, it is likely that the value of the investment securities will fluctuate during short periods of time, and it is possible that such changes could materially affect the amounts reported in the financial statements. For more information on the investment risk exposures, see note 2B below.

For full disclosure regarding cash and investments held at the State Treasury, a copy of the State Treasury audited annual financial report may be obtained by writing to the Oregon State Treasury, 350 Winter St. NE, Suite 100, Salem, OR 97301 or via the internet at www.oregon.gov/treasury/Reports/Pages/Annual-Reports.aspx.

A. Cash and Cash Equivalents

DEPOSITS WITH STATE TREASURY

SOU maintains a portion of its current cash balances on deposit with the State Treasury. These deposits are held on a pooled basis as described above in the Oregon Short-Term Fund (OSTF). The OSTF is a cash and investment pool for use by all state and related agencies. The State Treasurer invests these deposits in high-grade short-term investment securities. At the fiscal year ended June 30, 2015, SOU cash and cash equivalents on deposit at the State Treasury was \$15,242.

Cash and Cash Equivalents are classified as current and noncurrent which include both restricted and unrestricted cash. The current portion includes \$2,493 in funds held for payroll liabilities and \$333 held for debt service payments. The noncurrent portion includes \$61 in funds held for SOU student groups and campus organizations and \$4,281 held for debt service payments.

CUSTODIAL CREDIT RISK—DEPOSITS

Custodial credit risk is the risk that, in the event of a financial institution failure, cash balances will not be returned to a depositor. Since SOU cash balances held on deposit at the State Treasury are invested consistently, custodial credit risk exposure to the State Treasury is low.

FOREIGN CURRENCY RISK—DEPOSITS

Deposits in foreign currency run the risk of changing value due to fluctuations in foreign exchange rates. State Treasury deposits are in U.S. currency and therefore not exposed to foreign currency risk.

OTHER DEPOSITS

For the year ended June 30, 2015, SOU had vault and petty cash balances of \$14 and cash held by trustee related to capital construction bonds in the amount of \$34,229 for the fiscal year ended June 30, 2015. Cash held by trustee is included in noncurrent cash in the Statement of Net Position.

B. Investments

SOU operating funds are invested in the PUF and managed by the State Treasury. The SOU endowment assets are managed separately by the State Treasury. See Note 1.M for additional information regarding SOU endowments. The investment policies are governed by statute, the Oregon Investment Council (OIC), and the Board. In accordance with ORS, investments of those funds are managed as a prudent investor would do, exercising reasonable care, skill and caution. While the State Treasury is authorized to utilize demand deposit accounts and fixed-income investments, equity

investments must be directed by external investment managers who are under contract to the OIC.

Investments are all classified as noncurrent and include both restricted and unrestricted funds. At June 30, 2015, of the total \$20,751 in investments, \$2,060 are restricted endowments, which include both true and quasi endowments. Of the \$18,692 invested in the PUF, \$2,982 are funds held for payroll liabilities and undistributed student loans and \$5,579 are held for debt service payments.

Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities could occur in the near term and such changes could materially affect the amounts reported in the Statement of Net Position.

Significant events in domestic and international investment markets or aggressive action by the Federal Open Market Committee to influence both short and long-term interest rates contribute to price volatility. Consequently, the fair value of SOU's portion of PUF pooled investments is exposed to price volatility which could result in a substantial change in the fair value of certain investments from the amounts reported as of June 30, 2015.

OUS monitors endowment investments to identify any accounts for which estimated fair value is less than historical value. As of June 30, 2015, SOU had no individually named permanent endowment funds with estimated fair values that, in total, were less than their permanently restricted or historical value.

Of SOU's total assets invested in the PUF investment pools, \$11,632 are invested in an intermediate term fixed income pool managed by the State Treasury and \$7,060 was invested in a long-term fixed income pool managed by the State Treasury. SOU follows the OUS endowment investment policy and follows State Treasury policy for investments of unspent bond proceeds.

Investments of the SOU discretely presented component units are summarized at June 30, 2015 as follows:

COMPONENT UNIT

Fair Value at June 30,	2015
Investment Type:	
Marketable Securities	\$ 24,808
Money Market Funds and Cash	55
Remainder Trusts, Unitrusts and Gift Annuities	1,071
Total Investments	\$ 25,934

CREDIT RISK

Credit risk is the risk that the issuer of an investment fails to fulfill its obligations. OUS has an investment policy for each segment of its investment portfolio. Of these, the policy on the endowment has the least restrictive credit requirements. The policy requires fixed income securities to have an average credit quality of A/Aa or better and limits below investment grade bonds to no more than 15 percent of the bond portfolio, exclusive of guaranteed investment contracts. The policy also permits holding unrated investments such as common stock, venture capital funds, and real estate.

Based on these parameters, as of June 30, 2015 approximately 35.7 percent of investments in the PUF pools and 34.5 percent of SOU endowments managed by the State Treasury are subject to credit risk reporting. Fixed

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015 (DOLLARS IN THOUSANDS)

income securities rated by the credit agencies as lower medium to high quality, indicating the issuer has a strong capacity to pay principal and interest when due, totaled \$99,945 for investments in the PUF pools and \$687 for SOU endowments managed by the State Treasury in fiscal year 2015. Fixed income securities which have not been evaluated by the rating agencies totaled \$10,759 for investments in PUF pools and \$25 for SOU endowments managed by the State Treasury in fiscal year 2015. The PUF Investment Pools totaled \$307,454 at June 30, 2015, of which SOU owned \$18,692 or 6.1 percent.

CUSTODIAL CREDIT RISK

Custodial credit risk refers to OUS investments that are held by others and not registered in OUS's or the State Treasury's name. This risk typically occurs in repurchase agreements where cash is transferred to a broker-dealer in exchange for securities, but the securities are held by a separate trustee in the name of the broker-dealer. There are policy provisions around securities lending to control this risk. See "C. Securities Lending" in this footnote for additional information.

CONCENTRATION OF CREDIT RISK

Concentration of credit risk refers to potential losses if total investments are concentrated with one or few issuers. OUS policy for reducing this risk in fixed income securities is that, with the exception of U.S. Government and Agency issues, no more than 10 percent of the bond portfolio, at market value, will be invested in securities of a single issuer or no more than five percent of the individual issue. For all other types of fixed income investments, not more than five percent of the market value of any investment fund will be invested in any single security, unless part of an index fund.

FOREIGN CURRENCY RISK

Foreign currency risk is the risk that investments may lose value due to fluctuations in foreign exchange rates. No amounts of any SOU investments were primarily invested in international debt or equities at June 30, 2015.

INTEREST RATE RISK

Investments in fixed income securities are subject to the risk that changes in interest rates will adversely affect the fair value of the investments. As of June 30, 2015, securities in the PUF Investment Pool held subject to interest rate risk totaling \$110,017 had an average duration of 3.38 years. Duration measures the change in the value of a fixed income security that will result from a 1 percent change in interest rates.

C. Securities Lending

In accordance with the State investment policies, the State Treasurer participates in securities lending transactions. The State Treasurer has authorized its custodian to act as its agent in the lending of SOU and OSTF's securities pursuant to a form of loan agreement, in accordance with OSTF investment policies. There were no significant violations of the provisions of securities lending agreements during the year ended June 30, 2015. Amounts reported on SOU's Statement of Net Position as Collateral From and Obligations Under Securities Lending are a percent share of the amount owned by the public universities in total.

The State Treasurer's securities lending agent lent short-term and fixed income securities and received as collateral U.S. dollar cash. Borrowers were required to deliver collateral for each loan equal to not less than 102 percent of the market value of the loaned security. The State Treasurer did not impose any restrictions during the year on the amount of the loans that the securities lending agent made on its behalf. The State Treasurer is fully

indemnified by its securities lending agent against losses due to borrower default. There were no losses during the year from the failure of borrowers to return loaned securities.

The Custodian is authorized by the Securities Lending Agreement to invest cash collateral received for SOU securities on loan in the OSTF. At June 30, 2015, the OSTF comprised commercial paper, U.S. agency securities, time certificates of deposit, and corporate notes. The funds' rules provide that broker/dealers meet certain qualifications and that investments are delivered to and held by a third party custodian, which holds the funds' securities in the State of Oregon's name.

The cash collateral of OSTF securities on loan was invested in a short-term investment fund (STIF) maintained by the custodial agent, into U.S. agency securities, and corporate notes. The investments were held by a third-party custodian in the State of Oregon's name. The STIF is not rated by a nationally recognized statistical rating organization, although the STIF's portfolio rules provide minimum requirements with respect to the credit quality of the STIF.

The State Treasurer and borrowers maintain the right to terminate all securities lending transactions on demand. As a consequence, the maturities of investments made with the cash collateral generally do not match the maturities of the securities loans.

3. ACCOUNTS RECEIVABLE

Accounts Receivable, including amounts due from component units, comprised the following:

	June 30, 2015
Student Tuition and Fees	\$ 4,775
Other	1,659
Federal Grants and Contracts	286
Auxiliary Enterprises and Other Operating Activities	1,965
State, Other Government, and Private	
Gifts, Grants and Contracts	445
Component Units	30
	9,160
Less: Allowance for Doubtful Accounts	(3,462)
Accounts Receivable, Net	\$ 5,698

4. NOTES RECEIVABLE

Student loans made through the Federal Perkins Loan Program comprise substantially all of the Federal Student Loans receivable at June 30, 2015. The program is funded through interest earnings and repayment of loans. Under certain conditions, the repayment of loans can be forgiven at differing annual rates ranging from 10 to 100 percent.

Federal Perkins loans deemed uncollectable are assigned to the U.S. Department of Education for collection. SOU has provided an allowance for uncollectible loans which in management's opinion, will absorb loans that will ultimately be written off. Notes Receivable comprised the following:

	June 30, 2015		
	Current	Noncurrent	Total
Institutional and Other Student Loans	\$ 479	\$ 1,209	\$ 1,688
Federal Student Loans	618	2,781	3,399
Receivable for Construction Reimbursements	-	13,700	13,700
	1,097	17,690	18,787
Less: Allowance for Doubtful			
Accounts	(111)	(536)	(647)
Notes Receivable, Net	\$ 986	\$ 17,154	\$ 18,140

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015 (DOLLARS IN THOUSANDS)

5. CAPITAL ASSETS

The following schedule reflects the changes in capital assets:

	Balance July 1, 2014	Additions	Transfer Completed Assets	Retire. And Adjust.	Balance June 30, 2015
Capital Assets,					
Non-depreciable/Non-amortizable:					
Land	\$ 3,556	\$ -	\$ -	\$ -	\$ 3,556
Capitalized Collections	1,491	70	-	-	1,561
Construction in Progress	1,546	18,641	-	72	20,259
Total Capital Assets,					
Non-depreciable/Non-amortizable	6,593	18,711	-	72	25,376
Capital Assets, Depreciable/					
Amortizable:					
Equipment	10,101	351	-	(19)	10,433
Library Materials	14,456	238	-	(54)	14,640
Buildings	132,125	45	-	-	132,170
Land Improvements	1,779	38	-	-	1,817
Improvements Other Than Buildings	836	-	-	-	836
Infrastructure	2,995	-	-	-	2,995
Intangible Assets	2,091	-	-	-	2,091
Total Capital Assets,					
Depreciable/Amortizable	164,383	672	-	(73)	164,982
Less Accumulated Depreciation/					
Amortization for:					
Equipment	(7,704)	(643)	-	19	(8,328)
Library Materials	(12,949)	(364)	-	54	(13,259)
Buildings	(61,651)	(2,994)	-	-	(64,645)
Land Improvements	(1,710)	(31)	-	-	(1,741)
Improvements Other Than Buildings	(647)	(28)	-	-	(675)
Infrastructure	(2,867)	(23)	-	-	(2,890)
Intangible Assets	(1,878)	(78)	-	-	(1,956)
Total Accumulated Depreciation/					
Amortization	(89,406)	(4,161)	-	73	(93,494)
Total Capital Assets, Net	\$ 81,570	\$ 15,222	\$ -	\$ 72	\$ 96,864
Capital Assets Summary					
Capital Assets, Non-depreciable/ Non-amortizable	\$ 6,593	\$ 18,711	\$ -	\$ 72	\$ 25,376
Capital Assets, Depreciable/ Amortizable	164,383	672	-	(73)	164,982
Total Cost of Capital Assets	170,976	19,383	-	(1)	190,358
Less Accumulated Depreciation/ Amortization	(89,406)	(4,161)	-	73	(93,494)
Total Capital Assets, Net	\$ 81,570	\$ 15,222	\$ -	\$ 72	\$ 96,864

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015 (DOLLARS IN THOUSANDS)

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts Payable and Accrued Liabilities comprised the following:

	June 30, 2015
Services and Supplies	\$ 2,811
Accrued Interest	1,580
Salaries and Wages	4,011
Contract Retainage Payable	661
Other	1
Total	<u>\$ 9,064</u>

7. OPERATING LEASES

A. Receivables/Revenues

SOU receives income for land and property that is leased to non-state entities. Rental income received from leases was \$614 for the year ended June 30, 2015. The original cost of assets leased, net of depreciation, was \$3,141 for the year ended June 30, 2015. Minimum future lease revenue from noncancelable operating leases at June 30, 2015 were:

For the year ending June 30,

2016	\$ 254
2017	343
2018	433
2019	550
2020	735
2021-2025	4,233
2026-2030	7,113
2031-2035	10,249
2036-2040	11,985
2041-2045	4,144
Total Minimum Operating Lease Revenues	<u>\$ 40,039</u>

B. Payables/Expenses

SOU leases building and office facilities and other equipment under non-cancelable operating leases. Total costs for such leases and rents were \$359 for the year ended June 30, 2015. Minimum future lease payments on operating leases at June 30, 2015 were:

For the year ending June 30,

2016	\$ 392
2017	373
2018	286
2019	74
Total Minimum Operating Lease Payments	<u>\$ 1,125</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015 (DOLLARS IN THOUSANDS)

8. LONG-TERM LIABILITIES

Long-term liability activity was as follows:

	Balance June 30, 2014	Additions	Reductions	Balance June 30, 2015	Amount Due Within One Year	Long-Term Portion
Long-Term Debt						
Due to OUS:						
General Obligation Bonds XI-F(1)	\$ 34,743	\$ 14,947	\$ (2,724)	\$ 46,966	\$ 1,809	\$ 45,157
General Obligation Bonds XI-G	22,347	6,062	(6,503)	21,906	1,032	20,874
General Obligation Bonds XI-Q	3,792	35,193	(384)	38,601	1,398	37,203
Certificates of Participation (COPs)	1,610	-	(884)	726	79	647
Lottery Bonds	29,693	2,980	(3,801)	28,872	1,189	27,683
Oregon Department of Energy Loans (SELP)	3,328	-	(283)	3,045	254	2,791
Installment Purchase	355	-	(117)	238	95	143
Total Long-Term Debt	95,868	59,182	(14,696)	140,354	5,856	134,498
Other Noncurrent Liabilities						
PERS pre-SLGRP pooled Liability	4,291	-	(187)	4,104	165	3,939
Compensated Absences	1,645	1,124	(1,013)	1,756	1,109	647
Other Postemployment Benefits	1,031	55	-	1,086	-	1,086
Employee Deferred Compensation	-	-	-	-	-	-
Employee Termination Liabilities	-	-	-	-	-	-
Early Retirement Liability	246	98	(108)	236	97	139
Total Other Noncurrent Liabilities	7,213	1,277	(1,308)	7,182	1,371	5,811
Total Long-Term Liabilities	\$ 103,081	\$ 60,459	\$ (16,004)	\$ 147,536	\$ 7,227	\$ 140,309

The schedule of principal and interest payments for SOU debt is as follows:

For the Year Ending June 30,	General Obligation Bonds				Lottery Bonds	SELP	Other Borrowings	Total Payments	Principal	Interest
	XI-F(1)	XI-G	XI-Q	COPs						
2016	\$ 3,308	\$ 1,624	\$ 2,839	\$ 109	\$ 2,075	\$ 380	\$ 95	\$ 10,430	\$ 4,563	\$ 5,867
2017	3,645	1,627	2,842	109	2,076	236	95	10,630	4,748	5,882
2018	3,700	1,619	2,836	110	2,085	235	28	10,613	5,022	5,591
2019	3,521	1,513	2,831	110	1,591	236	20	9,822	4,709	5,113
2020	3,281	1,508	2,839	110	1,945	236	-	9,919	4,967	4,952
2021-2025	15,143	7,932	13,141	69	11,423	1,179	-	48,887	28,190	20,697
2026-2030	14,129	7,514	11,282	322	10,648	1,159	-	45,054	31,228	13,826
2031-2035	11,692	4,117	11,027	-	5,989	601	-	33,426	26,695	6,731
2036-2040	6,576	910	2,792	-	-	-	-	10,278	7,975	2,303
2041-2045	5,538	-	-	-	-	-	-	5,538	4,770	768
2046-2050	774	-	-	-	-	-	-	774	755	19
Accreted Interest									1,384	(1,384)
									\$ 125,006	\$ 70,365
Total Future Debt Service	71,307	28,364	52,429	939	37,832	4,262	238	195,371		
Less: Interest Component of Future Payments	(27,963)	(8,306)	(19,763)	(242)	(12,874)	(1,217)	-	(70,365)		
Principal Portion of Future Payments	43,344	20,058	32,666	697	24,958	3,045	238	125,006		
Adjusted by:										
Unamortized Bond Premiums	3,622	1,848	5,935	29	3,914	-	-	15,348		
Total Long-Term Debt	\$ 46,966	\$ 21,906	\$ 38,601	\$ 726	\$ 28,872	\$ 3,045	\$ 238	\$ 140,354		

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015 (DOLLARS IN THOUSANDS)

The State of Oregon and the OUS Board issue various debt instruments to fund capital projects at all OUS institutions, including SOU. These debt instruments include General Obligation Bonds under articles XI-F(1), XI-G, and XI-Q of the Oregon Constitution, Certificates of Participation (COPs) and Lottery Bonds. Principal and interest amounts due relating to SOU's share of these debt issuances are payable to OUS. In addition, SOU also borrows funds from the Oregon Department of Energy. This debt obligation is paid directly to Oregon Department of Energy.

A. General Obligation Bonds XI-F(1)

XI-F(1) bonds, with effective yields ranging from 0.14 percent to 7.0 percent, are due serially through 2046. During the fiscal year ended June 30, 2015, the OUS Board issued XI-F(1) bonded indebtedness on behalf of SOU as follows:

- \$12,660 of Series 2015M XI-F(1) Tax Exempt bonds with an effective rate of 3.83 percent, due serially through 2046.
- \$860 of Series 2015B XI-F(1) Tax Exempt bonds with an effective rate of 4.68 percent, due serially through 2034 for refunding.

B. General Obligation Bonds XI-G

XI-G bonds, with effective yields ranging from 0.41 percent to 7.0 percent, are due serially through 2038. During the fiscal year ended June 30, 2015, the State issued XI-G bonded indebtedness on behalf of SOU as follows:

- \$4,975 of Series 2015A XI-G Tax Exempt bonds with an effective rate of 4.8 percent, due serially through 2038 for refunding.

C. General Obligation Bonds XI-Q

XI-Q bonds, with effective yields ranging from 0.19 percent to 4.4 percent, are due serially through fiscal year 2039. During the fiscal year ended June 30, 2015, the State issued XI-Q bonded indebtedness on behalf of SOU as follows:

- \$28,885 of Series 2015FG XI-Q Tax Exempt bonds with an effective rate of 1.91 percent, due serially through 2039 for capital construction.
- \$732 of Series 2015H XI-Q Tax Exempt bonds with an effective rate of 4.83 percent, due serially through 2027 for refunding.

D. Certificates of Participation

COPs, with effective yields ranging from 2.69 percent to 5.0 percent, are due through fiscal year 2029. The State has not issued COPs on behalf of OUS since fiscal year 2010.

E. Lottery Bonds

Lottery Bonds, with effective yields ranging from 0.25 percent to 4.57 percent, are due through fiscal year 2033. During the fiscal year ended June 30, 2015, the State issued Lottery Bonds on SOU's behalf as follows:

- \$606 of 2014 Series B Taxable and Tax Exempt bonds with an average interest rate of 5.0 percent, due serially through 2027, for refunding.
- \$1,877 of 2015 Series C Tax Exempt bonds with an average interest rate of 4.73 percent, due serially through 2028, for refunding.

F. Oregon Department of Energy Loans (SELP)

SOU has entered into loan agreements with the State of Oregon Department of Energy (DOE) Small Scale Energy Loan Program (SELP) for energy conservation projects at SOU. SOU makes monthly loan payments (principal and interest) to the DOE in accordance with the loan agreements. SELP loans, with interest rates ranging from 3.83 percent to 5.7 percent, are due through 2033.

G. Defeased Debt

SOU participates in a debt portfolio managed by the OUS. From time to time and when fiscally appropriate, OUS will sell bonds and use the proceeds to defease other debt.

During the year ended June 30, 2015, the State issued on behalf of SOU \$860 in XI-F(1) Bonds with an average interest rate of 4.68 percent to refund \$971 in XI-F(1) Bonds with an average interest rate of 4.76 percent. The net proceeds of the bonds were \$1,035 (after payment of \$6 in underwriting costs and bond premium of \$180).

The refunding resulted in a difference between the reacquisition price and the net carrying value of the old debt of \$52. The refunding was undertaken to reduce total debt service payments of principal and interest over the next 23 years by \$242 and resulted in an economic gain of \$191.

During the year ended June 30, 2015, the State issued on behalf of SOU \$4,975 in XI-G Bonds with an average interest rate of 4.80 percent to refund \$5,519 in XI-G Bonds with an average interest rate of 4.76 percent. The net proceeds of the bonds were \$6,043 (after payment of \$32 in underwriting costs and bond premium of \$1,100).

The refunding resulted in a difference between the reacquisition price and the net carrying value of the old debt of \$459. The refunding was undertaken to reduce total debt service payments of principal and interest over the next 23 years by \$911 and resulted in an economic gain of \$707.

During the year ended June 30, 2015, the State issued on behalf of SOU \$732 in XI-Q Bonds with an average interest rate of 5.00 percent to refund \$776 in COPs with an average interest rate of 4.83 percent. The net proceeds of the bonds were \$891 (after payment of \$4 in underwriting costs and bond premium of \$163).

The refunding resulted in a difference between the reacquisition price and the net carrying value of the old debt of \$84. The refunding was undertaken to reduce total debt service payments of principal and interest over the next 12 years by \$68 and resulted in an economic gain of \$59.

During the year ended June 30, 2015, the State issued on behalf of SOU \$2,483 in Lottery Bonds with an average interest rate of 4.86 percent to refund \$2,718 in Lottery Bonds with an average interest rate of 4.78 percent. The net proceeds of the bonds were \$2,963 (after payment of \$10 in underwriting costs, bond premium of \$497, and cash on hand in reserve account of \$7).

The refunding resulted in a difference between the reacquisition price and the net carrying value of the old debt of \$196. The refunding was undertaken to reduce total debt service payments of principal and interest over the next 13 years by \$231 and resulted in an economic gain of \$216.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015 (DOLLARS IN THOUSANDS)

In prior years, OUS defeased various bond issues by placing funds in an irrevocable trust to provide for all future debt service payments of the defeased bonds. For financial reporting purposes, the debt has been considered defeased and, therefore, removed as a liability from the financial statements. The total amount of the defeased debt outstanding but removed from the financial statements amounted to \$19,832 at June 30, 2015.

H. Financial Guarantees

OUS, including SOU as a member university, is a governmental agency of the State of Oregon. Therefore, the State of Oregon is ultimately responsible for OUS's financial obligations. As of June 30, 2015, no amounts have been paid by the State of Oregon for OUS's financial obligations, both cumulatively and during the current reporting period.

I. State and Local Government Rate Pool

Prior to the formation of the PERS State and Local Government Rate Pool (SLGRP), the State and community colleges were pooled together in the State and Community College Pool (SCCP), and local government employers participated in the Local Government Rate Pool (LGRP). These two pools combined to form the SLGRP effective January 1, 2002, at which time a transitional, pre-SLGRP liability was created. The pre-SLGRP liability is essentially a debt owed to the SLGRP by the SCCP employers. The balance of the pre-SLGRP pooled liability attributable to the State is being amortized over the period ending December 31, 2027. The liability is allocated by the State of Oregon, based on salaries and wages, to all proprietary funds and the government-wide reporting fund in the State Comprehensive Annual Financial Report. Interest expense was paid by SOU in the amount of \$287 for June 30, 2015. Principal payments of \$165 were applied to the liability for June 30, 2015. A prior period adjustment of \$22 was applied to SOU's SLGRP liability at June 30, 2015.

J. Early Retirement Liability

Since 1998, SOU has offered a voluntary tenure relinquishment and early retirement program to tenured faculty at least 55 years of age. Faculty electing this plan relinquish all claims to tenure and receive an annual full-time fixed term contract for up to three years. An option within the plan provides that SOU will subsidize health and dental benefits up to a specified dollar amount for up to seven years after the employee's retirement date. As of June 30, 2015, seven retirees are participating in the health and dental benefits option of this plan and a \$236 liability will be paid out through fiscal year 2020.

9. CHANGE IN ENTITY

Senate Bill 270 was passed by the Oregon Legislature during fiscal year 2013 which established a pathway for SOU to become an independent public body legally separate from the OUS. The State Board of Higher Education conditionally endorsed SOU to become a separate legal entity with an independent governing board effective July 1, 2015. Prior to July 1, 2015 SOU was a part of the OUS, a state agency of the State of Oregon. As a state agency, some assets were held centrally by OUS, these assets were distributed to the seven universities, including SOU, on or before the June 30, 2015 closing of OUS.

Changes in Net Position due to the change in entity comprised the following:

	June 30, 2015
Assets transferred from OUS resulting in increase to Net Position	
Cash Distribution To/For:	
Closing of OUS Internal Bank	\$ 127
Student Building Fee Fund	9,358
Lottery Debt Service Funds	3
Fraud Prevention Funds	20
Support from Chancellor's Office	250
Remaining cash at close of Chancellor's Office	39
Accounts Receivable for Litigation	101
Total Assets Transferred from OUS	9,898
Other Changes	
Principal & Interest Payments on institution debt paid by Chancellor's Office	1,346
Total Change in Entity	11,244

10. INVESTMENT ACTIVITY

Investment Activity detail is as follows:

	June 30, 2015
Net Appreciation of Investments	273
Endowment Income	73
Investment Earnings	\$ 66
Interest Income	28
Total Investment Activity	\$ 440

11. OPERATING EXPENSES BY NATURAL CLASSIFICATION

The Statement of Revenues, Expenses and Changes in Net Position reports operating expenses by their functional classification. The following displays operating expenses by natural classification:

	June 30, 2015
Compensation and Benefits	\$ 49,883
Services and Supplies	16,286
Scholarships and Fellowships	7,394
Depreciation and Amortization	4,161
Other Expenses	165
Total Operating Expenses	\$ 77,889

12. GOVERNMENT APPROPRIATIONS

Government appropriations comprised the following:

	June 30, 2015		
	General	Debt	Total
State General Fund	\$ 16,889	\$ 1,914	\$ 18,803
State Lottery Funding	443	938	1,381
Total Appropriations	\$ 17,332	\$ 2,852	\$ 20,184

13. EMPLOYEE RETIREMENT PLANS

The university offers various retirement plans to qualified employees as described below.

A. Defined Benefit Retirement Program

SOU implemented GASB Statement 68 *Accounting and Financial Reporting for Pensions* for the reporting period ending June 30, 2015. Beginning balance as of July 1, 2015 for Net Pension Liability and Deferred Outflows of Resources are presented on the Statement of Revenues, Expenses and Changes in Net Position as a Change in Accounting Principle. See "Note 1.Q." for more information on the Change in Accounting Principle presentation.

Pension Plan

The Oregon Public Employees Retirement System (PERS) consists of a single cost-sharing multiple employer defined benefit plan in which all classes of employees of the University are eligible to participate.

Plan Benefits

All benefits of the System are established by the legislature pursuant to ORS Chapters 238 and 238A

PERS PENSION (CHAPTER 238) PROGRAM

Pension Benefits

The PERS retirement allowance is payable monthly for life. It may be selected from 13 retirement benefit options. These options include survivorship benefits and lump-sum refunds. The basic benefit is based on year of service and final average salary. A percentage (1.67 percent for general service employees) is multiplied by the number of years of service and the final average salary. Benefits may also be calculated under either a formula plus annuity (for members who were contributing before August 21, 1981) or a money match computation if a greater benefit results.

A member is considered vested and will be eligible at minimum retirement age for a service retirement allowance if he or she has had a contribution in each of five calendar years or has reached at least 50 years of age before ceasing employment with a participating employer. General Service employees may retire after reaching age 55. Tier One general service employee benefits are reduced if retirement occurs prior to age 58 with fewer than 30 years of service. Tier Two members are eligible for full benefits at age 60. The ORS Chapter 238 Defined Benefit Pension Plan is closed to new members hired on or after August 29, 2003.

Death Benefits

Upon the death of a non-retired member, the beneficiary receives a lump-sum refund of the member's account balance (accumulated contributions and interest). In addition, the beneficiary will receive a lump-sum payment from employer funds equal to the account balance provided one or more of the following conditions are met:

- the member was employed by a PERS employer at the time of death
- the member died within 120 days after termination of PERS-covered employment
- the member died as a result of injury sustained while employed in a PERS-covered job
- the member was on an official leave of absence from a PERS-covered job at the time of death.

Disability Benefits

A member with 10 or more years of creditable service who becomes disabled from other than duty-connected causes may receive a non-duty disability benefit. A disability resulting from a job-incurred injury or illness qualifies a member for disability benefits regardless of the length of PERS-covered service. Upon qualifying for either a non-duty or duty disability, service time is computed to age 58 when determining the monthly benefit.

Benefit Changes after Retirement

Members may choose to continue participation in a variable equities investment account after retiring and may experience annual benefit fluctuations due to changes in market value of equity investments.

Under ORS 238.360 monthly benefits are adjusted annually through cost-of-living adjustments (COLA). Under current law, the cap on the COLA in fiscal year 2015 and beyond will vary based on 1.25 percent on the first \$60 of annual benefit and 0.15 percent on annual benefits above \$60.

OREGON PUBLIC SERVICE RETIREMENT PLAN (OPSRP) PENSION PROGRAM

Pension Benefits

The ORS Chapter 238A Defined Benefit Pension Program provides benefits to members hired on or after August 29, 2003. This portion of OPSRP provides a life pension funded by employer contributions. Benefits are calculated with the following formula for members who attain normal retirement age: 1.50 percent is multiplied by the number of years of service and the final average salary. Normal retirement age for general service members is age 65, or age 58 with 30 years of retirement credit.

A member of the pension program becomes vested on the earliest of the following dates: the date the member completes 600 hours of service in each of five calendar years, the date the member reaches normal retirement age, and if the pension program is terminated, the date on which termination becomes effective.

Death Benefits

Upon the death of a non-retired member, the spouse or other person who is constitutionally required to be treated in the same manner as the spouse,

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015 (DOLLARS IN THOUSANDS)

receives for life 50 percent of the pension that would otherwise have been paid to the deceased member.

Disability Benefits

A member who has accrued 10 or more years of retirement credits before the member becomes disabled or a member who becomes disabled due to job-related injury shall receive a disability benefit of 45 percent of the member's salary determined as of the last full month of employment before the disability occurred.

Benefit Changes after Retirement

Under ORS 238A.210 monthly benefits are adjusted annually through COLAs. Under current law, the cap on the COLA in fiscal year 2015 and beyond will vary based on 1.25 percent on the first \$60 of annual benefit and 0.15 percent on annual benefits above \$60.

CONTRIBUTIONS

PERS employee contribution requirements are established by ORS 238A.330 and are credited to an employee's account in the Individual Account Program and may be amended by an act of the Oregon State Legislature. PERS funding policy provides for monthly employer contributions at actuarially determined rates. These contributions, expressed as a percentage of covered payroll, are intended to accumulate sufficient assets to pay benefits when due. This funding policy applies to the PERS Defined Benefit Plan and the Other Postemployment Benefit Plans.

Employer contribution rates during the period were based on the December 31, 2011 actuarial valuation as subsequently modified by 2013 legislated changes in benefit provisions. The rates first became effective July 1, 2013. The employer contribution rate for Tier One and Tier Two for the year ended June 30, 2015 was 9.86 percent. The employer contribution rate for OPSRP for the year ended June 30, 2015 was 8.14 percent.

Employer required contributions PERS and OPSRP for the year ended June 30, 2015 were \$2,039, including amounts to fund employer specific liabilities. A 10 year schedule of Defined Benefit Pension Plan Contributions can be found beginning on page 58 of the June 30, 2014 PERS CAFR.

Pension Plan CAFR

The System issues an independently audited CAFR which can be found at: http://www.oregon.gov/pers/Pages/section/financial_reports/financials.aspx.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to Pensions

At June 30, 2015, the University reported a net pension asset of \$4,707 for its proportionate share of the net pension asset. The net pension asset was measured as of December 31, 2012, and the total pension asset used to calculate the net pension asset was determined by an actuarial valuation as of that date. The PERS system does not provide SOU a proportionate share as a separate employer. SOU is a portion of employer state agencies which includes all state agencies. The State of Oregon Department of Administrative Services calculated SOU's proportional share internally based on fiscal year

2014 actual contributions. The State of Oregon Audits Division reviewed this internal calculation. As of the measurement date of June 30, 2014, SOU's proportion was 0.21 percent of the statewide pension plan, and 0.88 percent of employer state agencies.

For the year ended June 30, 2015, SOU recognized pension expense of (\$4,302). At June 30, 2015, SOU reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	9,082
Changes in proportion and differences between System's contributions and proportionate share of contributions	84	-
System contributions subsequent to the measurement date	-	-
Total	\$ 84	\$ 9,082
Net Deferred Outflow/(Inflow) of Resources before Contributions Subsequent to the Measurement Date (MD)		(8,998)
Contributions Subsequent to the MD	\$ 1,587	
Net Deferred Outflow/(Inflow) of Resources after Contributions Subsequent to the MD		\$ (7,411)

Of the amount reported as deferred outflows of resources, \$1,587 are related to pensions resulting from SOU contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2016	\$ (2,252)
2017	(2,252)
2018	(2,252)
2019	(2,252)
2020	10

Change in Proportionate Share

There was no change in proportionate share for fiscal years ending June 30, 2013 and June 30, 2014. Because the proportionate share is actuarially determined, it was calculated as of the December 31, 2012 valuation date used to develop results for both the June 30, 2013 and June 30, 2014 Measurement Dates. In future measurement periods, there will be changes in proportionate shares from the beginning of the period to the end.

Deferred Items

Deferred items are calculated at the system-wide level and are allocated to employers based on their proportionate share. For fiscal year ending June 30, 2014, there was:

- No difference between expected and actual experience
- No difference due to changes of assumptions

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015 (DOLLARS IN THOUSANDS)

- A net difference between projected and actual earnings which is being amortized over a closed five year period. One year's amortization is being recognized in the employer's total pension expense for fiscal year 2015
- No changes in proportionate share
- A difference between employer contributions and proportionate share of contributions, which is being amortized over 5.6 years, the remaining service lives of all plan participants including retirees. One year of this amortization is included in the employer's total pension expense for the measurement period.

Summary of Significant Accounting Policies for PERS

Reporting Entity. PERS' financial statements are prepared on the basis of a fiscal year ended June 30. The Oregon State Treasurer has statutory responsibility for custody and investment of PERS assets. As a result of this fiduciary responsibility, PERS is included as part of the primary government in the State of Oregon Comprehensive Annual Financial Report.

Basis of Accounting. The accrual basis of accounting is used. Revenues are recognized when earned. Contributions are recognized when due, pursuant to formal commitments, as well as statutory and Board requirements. Expenses are recognized when incurred. Benefits are recognized when currently due and payable. Withdrawals are recognized in the month they are due and payable. Investments are reported at fair value.

Changes in Plan Provisions

Senate Bill (SB) 822, signed into law in May 2013, eliminated the SB 656/House Bill (HB) 3349 tax remedy payments for beneficiaries not subject to Oregon income tax and limited the 2013 post-retirement COLA to 1.50 percent of annual benefit.

SB 861, signed into law in October 2013, limited the post-retirement COLAs for years beyond 2013 to 1.25 percent on the first \$60 of annual benefit and 0.15 percent on annual benefits above \$60.

SB 862, signed into law in October 2013, makes targeted changes such as allowing garnishment of PERS benefits for convicted felons. These changes do not significantly affect System liabilities and were not reflected in the valuation.

For GASB Nos. 67 and 68, the Total Pension Liability must be calculated based on the benefit terms legally in effect as of the relevant fiscal year-end for the plan. Due to the timing of the benefit changes, only SB 822 is reflected in the June 30, 2013 Total Pension Liability, but that the combined effects of SBs 822 and 861 are reflected in the June 30, 2014 Total Pension Liability. The decrease in the Total Pension Liability resulting from SB 861, measured as of June 30, 2014, created a \$2,423.6 million reduction in Plan pension liabilities.

(Source: December 31, 2012 Actuarial Valuation p. 98; Schedule of Changes in Net Pension (Asset)/Liability; PERS June 30, 2014 CAFR p. 57)

Employer Contributions

PERS includes accrued contributions when due pursuant to legal require-

ments, as of June 30 in its Statement of Changes in Fiduciary Net Position. These are normally included in the employer statements cut off as of the fifth of the following month. PERS does not try to accrue contributions based on pay date.

Beginning with fiscal year 2015, PERS was able to report cash contributions by employer, and has published this information on the PERS Website. Prior to fiscal year 2015, contributions to the OPSRP Defined Benefit plan were not accounted for by employer, as all employers were pooled for actuarial purposes.

Net Pension Liability

Net pension liabilities are calculated at the system-wide level and are allocated to employers based on their proportionate share. The rate setting actuarial valuation will continue to allocate the transitional or pre-SLGRP liabilities or surpluses as adjustments to the respective employers.

Changes in Assumptions

A summary of key changes implemented since the December 31, 2011 valuation are described briefly below. Additional detail and a comprehensive list of changes in methods and assumptions can be found in the 2012 Experience Study for the System, which was published on September 18, 2013 and can be found at: <http://www.oregon.gov/pers/docs/2012%20Exp%20Study%20Updated.pdf>

Changes in Actuarial Methods and Allocation Procedures:

Actuarial Cost Method: The Actuarial Cost Method was changed from the Projected Unit Credit (PUC) Cost Method to the Entry Age Normal (EAN) Cost Method. This change will allow PERS to use the same cost method for contribution rate calculations as required for financial reporting under GASB Statements 67 and 68.

Tier One/Tier Two Unfunded Actuarial Liability (UAL) Amortization: In combination with the change in cost method, the Board chose to re-amortize the outstanding Tier One/Tier Two UAL as of December 31, 2013 over a closed period of 20 years as a level percentage of projected payroll. Gains and losses between subsequent rate-setting valuations will be amortized over a closed 20 year period from the valuation in which they are first recognized.

Contribution Rate Stabilization Method: The "grade-in range" over which the rate collar gradually doubles was modified so that the collar doubles as funded status (excluding side accounts) decreases from 70 percent to 60 percent or increases from 130 percent to 140 percent. Previously the ranges had been 80 percent to 70 percent and 120 percent to 130 percent. The modification to the grade-in range was made in combination with the change to actuarial cost method, as discussed at the July 2013 PERS Board public meeting.

Allocation of Liability for Service Segment: For purposes of allocating Tier One/Tier Two member's actuarial accrued liability among multiple employers, the valuation uses a weighted average of the Money Match methodology and the Full Formula methodology used by PERS when the member retires. The weights are determined based on the prevalence of each formula among the current Tier One/Tier Two population. For the December 31, 2010 and

NOTES TO THE FINANCIAL STATEMENTS
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December 31, 2011 valuations, the Money Match was weighted 40 percent for General Service members and 10 percent for Police & Fire members. For the December 31, 2012 and December 31, 2013 valuations, this weighting has been adjusted to 30 percent for General Service members and 5 percent for Police & Fire members, based on a projection of the proportion of liability attributable to Money Match benefits at those valuation dates.

Changes in Economic Assumptions:

Investment Return and Interest Crediting: The assumed investment return and interest crediting to both regular and variable account balances was reduced to 7.75 percent. Previously, the assumed investment return and interest crediting to regular account balances was 8.00 percent and the assumed interest crediting to variable account balances was 8.25 percent.

OPSRP Administrative Expenses: Assumed administrative expenses for the OPSRP System were reduced from \$6,600 per year to \$5,500 per year.

Healthcare Cost Inflation: The healthcare cost inflation for the maximum Retiree Health Insurance Premium Account (RHIPA) subsidy was updated based on analysis performed by Milliman’s healthcare actuaries. This analysis includes the consideration of the excise tax that will be introduced in 2018 by the Patient Protection and Affordable Care Act.

Changes in Demographic Assumptions:

Healthy Mortality: The healthy mortality assumption is based on the RP2000 generational mortality tables with group-specific class and setback adjustments. The group-specific adjustments have been updated to more closely match recently observed system experience.

Disabled Mortality: The disabled mortality assumption base was changed from the RP2000 healthy tables to the RP2000 disabled tables. Gender-specific adjustments were applied to align the assumption with recently observed system experience.

Disability, Retirement from Active Status, and Termination: Rates for disability, retirement from active status, and termination were adjusted. Termination rates were changed from being indexed upon age to being indexed upon duration from hire date.

Changes in Salary Increase Assumptions:

Retiree Healthcare Participation: The Retiree Health Insurance Account (RHIA) participation rate for healthy retirees was reduced from 48 percent to 45 percent. The RHIPA participation rate was changed from a uniform rate of 13 percent to a service-based table of rates.

(Source: December 31, 2012 Actuarial Valuation p.89)

Plan fiduciary net position as a percentage of the total pension liability

See Schedule of Changes in Net Pension (Asset)/Liability on page 57 of the PERS June 30, 2014 CAFR.

Actuarial Valuations

The employer contribution rates effective July 1, 2013, through June 30, 2015, were set using the PUC actuarial cost method. For the Tier One/Tier

Two component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (2) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 20 years. For the OPSRP Pension Program component of the PERS Defined Benefit Plan, this method produced an employer contribution rate consisting of (a) an amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year), (b) an amount for the amortization of unfunded actuarial accrued liabilities, which are being amortized over a fixed period with new unfunded actuarial accrued liabilities being amortized over 16 years.

Actuarial Methods and Assumptions

Valuation Date	December 31, 2012 rolled forward to June 30, 2014.
Experience Study Report	2012, published September 18, 2013
Actuarial cost method	Entry Age Normal
Amortization method	Amortized as a level percentage of payroll as layered amortization bases over a closed period; Tier One/Tier Two UAL is amortized over 20 years and OPSRP pension UAL is amortized over 16 years.
Asset valuation method	Market value of assets
Actuarial assumptions:	
Inflation rate	2.75 percent
Investment rate of return	7.75 percent
Projected salary increases	3.75 percent overall payroll growth; salaries for individuals are assumed to grow at 3.75 percent plus assumed rates of merit/longevity increases based on service
Mortality	Healthy retirees and beneficiaries: RP-2000 Sex-distinct, generational per Scale AA, with collar adjustments and set-backs as described in the valuation.
	Active members: Mortality rates are a percentage of healthy retiree rates that vary by group, as described in the valuation.
	Disabled retirees: Mortality rates are a percentage (65% for males, 90% for females) of the RP-2000 static combined disabled mortality sex-distinct table.

Actuarial valuations of an ongoing plan involve estimates of the value of projected benefits and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Experience studies are performed as of December 31 of even numbered years. The methods and assumptions shown above are based on the 2012 Experience Study which reviewed experience for the four-year period ending on December 31, 2012.

Discount Rate

The discount rate used to measure the total pension liability was 7.75 percent for the Defined Benefit Pension Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Defined Benefit Pension Plan was applied to all periods of projected benefit payments to determine the total pension liability.

Depletion Date Projection

GASB No. 67 generally requires that a blended discount rate be used to measure the Total Pension Liability (the Actuarial Accrued Liability calculated using the Individual Entry Age Normal Cost Method). The long-term expected return on plan investments may be used to discount liabilities to the extent that the plan's Fiduciary Net Position (fair market value of assets) is projected to cover benefit payments and administrative expenses. A 20-year high quality (AA/Aa or higher) municipal bond rate must be used for periods where the Fiduciary Net Position is not projected to cover benefit payments and administrative expenses. Determining the discount rate under GASB 67 will often require that the actuary perform complex projections of future benefit payments and asset values. GASB 67 (paragraph 43) does allow for alternative evaluations of projected solvency, if such evaluation can reliably be made. GASB No. 67 does not contemplate a specific method for making an alternative evaluation of sufficiency; it is left to professional judgment.

The following circumstances justify an alternative evaluation of sufficiency for Oregon PERS:

- Oregon PERS has a formal written policy to calculate an Actuarially Determined Contribution (ADC), which is articulated in the actuarial valuation report.
- The ADC is based on a closed, layered amortization period, which means that payment of the full ADC each year will bring the plan to a 100 percent funded position by the end of the amortization period if future experience follows assumption.
- GASB No. 67 specifies that the projections regarding future solvency assume that plan assets earn the assumed rate of return and there are no future changes in the plan provisions or actuarial methods and assumptions, which means that the projections would not reflect any adverse future experience which might impact the plan's funded position.

Based on these circumstances, it is our independent actuary's opinion that the detailed depletion date projections outlined in GASB No. 67 would clearly indicate that the Fiduciary Net Position is always projected to be sufficient to cover benefit payments and administrative expenses.

(Source: June 30, 2014 PERS CAFR; p. 54)

Assumed Asset Allocation

Asset Class/ Strategy	Low Range	High Range	OIC Target
Cash	0.00 %	3.00 %	0.00 %
Debt Securities	15.00	25.00	20.00
Public Equity	32.50	42.50	37.50
Private Equity	16.00	24.00	20.00
Real Estate	9.50	15.50	12.50
Alternative Equity	0.00	10.00	10.00
Opportunity Portfolio	0.00	3.00	0.00
Total			100.00 %

Long-Term Expected Rate of Return

To develop an analytical basis for the selection of the long-term expected rate of return assumption, in July 2013 the PERS Board reviewed long-term assumptions developed by both Milliman's capital market assumptions team and the Oregon Investment Council's (OIC) investment advisors. The table below shows Milliman's assumptions for each of the asset classes in which the plan was invested at that time based on the OIC long-term target asset allocation. The OIC's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes adjustment for the inflation assumption. These assumptions are not based on historical returns, but instead are based on a forward-looking capital market economic model.

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Asset Class	Target	Compound Annual Return (Geometric)
Core Fixed Income	7.20%	4.50%
Short-Term Bonds	8.00	3.70
Intermediate-Term Bonds	3.00	4.10
High Yield Bonds	1.80	6.66
Large Cap US Equities	11.65	7.20
Mid Cap US Equities	3.88	7.30
Small Cap US Equities	2.27	7.45
Developed Foreign Equities	14.21	6.90
Emerging Foreign Equities	5.49	7.40
Private Equity	20.00	8.26
Opportunity Funds/Absolute Return	5.00	6.01
Real Estate (Property)	13.75	6.51
Real Estate (REITS)	2.50	6.76
Commodities	7.71	6.07
Assumed Inflation – Mean		2.75

Sensitivity Analysis

Sensitivity of SOU's proportional share of the net pension asset to changes in the discount rate: The following presents SOU's proportionate share of the net pension asset calculated using the discount rate of 7.75 percent, as well as what the SOU's proportionate share of the net pension asset would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	SOU's proportionate share of the net pension asset
1 % Decrease -6.75%	\$ 9,967
Current Discount Rate -7.75%	(4,707)
1 % Increase -8.75%	(17,118)

BOND DEBT

The Retirement Bond Debt Service Assessment was authorized by the State of Oregon Legislature in 2003 to sell general obligation bonds in the amount of \$2 billion to pay a PERS unfunded actuarial liability. This action reduced the PERS contribution rate for PERS covered employers in the State actuarial pool in November 2003.

The Oregon Department of Administrative Services coordinates the debt service assessments to PERS employers to cover the bond debt service payments. PERS employers are assessed a percentage of PERS-subject payroll to

fund the payments. The assessment rate is adjusted biennially over the life of the twenty-four year debt repayment schedule.

The payroll assessment for the pension obligation bond began May 2004 and is currently at a rate of 6.7 percent. Payroll assessments for the fiscal year ended June 30, 2015 were \$1,493.

B. DEFINED CONTRIBUTION RETIREMENT PLANS

OPTIONAL RETIREMENT PLAN

The 1995 Oregon Legislature enacted legislation that authorized SOU to offer a defined contribution retirement plan as an alternative to PERS. The Board appointed a Retirement Plan Committee to administer the Optional Retirement Plan (ORP) and named trustees to manage plan assets placed with mutual funds and insurance companies. Beginning April 1, 1996, the ORP was made available to SOU academic and administrative faculty. Employees choosing the ORP may invest the employee and employer contributions in one of multiple investment companies.

The ORP consists of four tiers. Membership under ORP Tier One and Tier Two is determined using the same date of entry criteria as PERS. The third tier is determined by the date of entry applicable to the OPSRP. Employees hired on or after July 1, 2014 who elected the ORP are Tier Four members. The first contributions for Tier Four were payable January 2015 after six-months of qualifying service. Tier Four is a departure from the other three tiers. The employee is entitled to an employer contribution plus a "match" contribution based on the employee's participation in the voluntary 403b investment plan. The employer contribution is fixed at 8 percent by plan rules and is unaffected by PERS rates, unlike the other tiers. The employer provides an ORP match contribution equal to 403b deferrals up to a 4 percent maximum.

Under the ORP Tier One, Tier Two and OPSRP Equivalent, the employee's contribution rate is 6 percent and is paid by the employer. The employer contribution rates for the ORP are as follows:

	2015
ORP Tier One	16.50%
ORP Tier Two	16.50%
OPSRP Equivalent	6.42%
Tier Four (as of January 1, 2015)	8.00%*
*With up to an additional 4% match of voluntary 403(b) salary deferrals	

OREGON UNIVERSITY SYSTEM 401(A) DEFINED CONTRIBUTION PLAN

Eligible ranked faculty participate in the Teacher's Insurance and Annuity Association and College Retirement Equities Fund (TIAA-CREF) retirement program, a defined contribution plan, on all salary in excess of forty-eight hundred dollars per calendar year. Employee and employer contributions are directed to PERS on the first forty-eight hundred dollars. The contribution to TIAA-CREF annuities are supplemental to PERS, based on compensation over \$4,800. To participate in this retirement option, employees must have been hired on or before September 9, 1995. This plan was closed to new enrollment at the time the ORP started in 1996.

NOTES TO THE FINANCIAL STATEMENTS

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Summary of Defined Contribution Pension Payments

SOU total payroll for the year ended June 30, 2015 was \$35,813, of which \$7,564 was subject to retirement contributions. The following schedule lists payments made by SOU for the fiscal year:

	June 30, 2015			
	Employer	As a % of	Employee	As a % of
ORP	\$ 830	10.97%	\$ 459	6.07%
TIAA-CREF	5	0.07%	5	0.07%
Total	\$ 835	11.04%	\$ 464	6.14%

SOU paid 100 percent of the ORP and TIAA-CREF Employee Contribution amounts on behalf of their employees during the fiscal year ended June 30, 2015.

14. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

During the year ended June 30, 2015, SOU was a part of OUS as a participant in the defined benefit postemployment health care plan.

Plan Description

SOU participates in a defined benefit postemployment healthcare plan, administered by the Public Employees Benefit Board (PEBB), which offers medical, dental and vision benefits to eligible retired state employees and their beneficiaries. The PEBB plan is an agent multiple-employer postemployment healthcare plan. Chapter 243 of the ORS assigns PEBB the authority to establish and amend the benefit provisions of the PEBB plan. As the administrator of the PEBB plan, PEBB has the authority to determine post-retirement benefit increases and decreases. PEBB does not issue a separate, publicly available financial report.

The PEBB plan allows SOU employees retiring under PERS or OPSRP to continue their healthcare on a self-pay basis until eligible for Medicare, usually at age 65. This plan creates an "implicit rate subsidy" because the healthcare insurance premiums paid by SOU for its employees is based on a blended premium of both employees and retirees combined, which is a higher premium than SOU would have paid for employees alone.

The PEBB plan is also offered to retirees of other Oregon state agencies. Therefore, the amounts presented in this note are limited to SOU's share, estimated at 1.17 percent of the total PEBB plan costs attributable to the State of Oregon. This allocation was based on health insurance premiums paid by state agencies during fiscal year 2015.

Funding Policy

SOU's current policy is to pay the implicit rate subsidy on a pay-as-you-go basis. For fiscal year 2015, SOU paid healthcare insurance premiums of \$9,143. The portion of the insurance premiums attributable to the implicit rate subsidy was estimated to be \$72 for the fiscal year ended 2015.

Annual OPEB Cost and Net OPEB Obligation

SOU's annual OPEB expense is calculated based on SOU's annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

The following table shows the components of SOU's annual OPEB expense for the year, the amount actually contributed to the plan, and changes in SOU's net OPEB obligation:

	June 30, 2015
Annual Required Contribution	\$ 156
Interest on Net OPEB Obligation	33
Adjustment to Annual Required Contribution	(62)
Annual OPEB Cost	127
Contributions Made	(72)
Increase in Net OPEB Obligation	55
Net OPEB Obligation - Beginning of Year	1,031
Net OPEB Obligation - End of Year	\$ 1,086

The SOU annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the increase in net OPEB obligation for the fiscal year ended June 30, 2015 was as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2015	\$ 127	12%	\$ 1,086
2014	130	13%	1,031
2013	191	22%	856

Funding Status and Funding Progress

The funded status of the SOU OPEB plan for June 30, 2015 was as follows:

	June 30, 2015
Actuarial Accrued Liabilities	\$ 1,231
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability	\$ 1,231
Funded Ratio	0.00%
Covered Payroll (active plan members)	\$ 30,121
Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll	4.09%

Actuarial valuations, prepared biennially, involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Accrual Methods and Assumptions

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between SOU and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

NOTES TO THE FINANCIAL STATEMENTS
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Significant methods and assumptions were as follows:

	June 30, 2015
Actuarial Valuation Date	7/1/2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage
Amortization Period	15 Years (open)
Investment Rate of Return	3.5%
Projected Salary Increases	3.5%
Initial Healthcare Inflation Rates	3.6% (medical) 2.2% (dental)
Ultimate Healthcare Inflation Rates	5.4% (medical) 5.0% (dental)

15. FUNDS HELD IN TRUST BY OTHERS

Funds held in trust by others, for which SOU is an income beneficiary, are not recorded in the financial records. The approximate value of such trust funds at June 30, 2015 was \$102.

16. RISK FINANCING

SOU participates in a pooled risk management fund managed by the Public University Risk Management and Insurance Trust (Trust). The Trust is a separate legal entity which operates for the benefit of the participating universities. By participating, SOU transfers the following risk to the Trust:

- Real property loss for university owned building, equipment, automobiles and other types of property
- Tort Liability claims brought against SOU, its officers, employees or agents
- Workers' compensation and employers liability
- Crime, Fiduciary
- Specialty lines of business including marine, medical practicums, international travel, fine art, aircraft, camps, clinics and other items.

SOU retains risk for losses under \$5, which is the deductible per claim not covered by insurance purchased through the Trust.

The Trust is backed by commercial policies, an excess property policy with a limit of \$500,000, and a blanket commercial excess bond with a limit of \$50,000. The Trust purchases commercial insurance for claims in excess of coverage provided by the self-insurance program and for all other risk of loss.

SOU is charged an assessment to cover the Trust's cost of servicing claims and payments based on the Risk Allocation Model and actuarial estimates of the amounts needed to pay prior and current-year claims.

17. COMMITMENTS AND CONTINGENT LIABILITIES

Outstanding commitments on partially completed and planned but not initiated construction projects totaled approximately \$42,029 at June 30, 2015. These commitments will be primarily funded from gifts and grants, bond proceeds, and other SOU funds. Refer to the table accompanying this note for projects relating to construction commitments as of June 30, 2015.

SOU is contingently liable in connection with certain other claims and contracts, including those currently in litigation, arising in the normal course

of its activities. Management is of the opinion that the outcome of such matters will not have a material effect on the financial statements.

SOU participates in certain federal grant programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursement to the grantor or for expenditures disallowed under terms of the grant. Management believes that disallowances, if any, will not have a material effect on the financial statements.

Unemployment compensation claims are administered by the Oregon Employment Division pursuant to ORS Chapter 657. SOU reimburses the Oregon Employment Division on a quarterly basis for actual benefits paid. Each year resources are budgeted to pay current charges. The amount of future benefit payments to claimants and the resulting liability to SOU cannot be reasonably determined at June 30, 2015.

CONSTRUCTION COMMITMENTS AS OF JUNE 30, 2015

	Total Commitment	Completed to Date	Outstanding Commitment
Capital Repair	\$ 2,337	\$ 27	\$ 2,310
McNeal Hall Deferred			
Maintenance	21,300	159	21,141
Medford Instructional Facility	2,554	2,501	53
Science Building Deferred			
Maintenance	21,000	16,435	4,565
Student Recreation Center	6,300	3,179	3,121
Theatre Building Remodel	11,000	179	10,821
Project Budgets <\$1 million	250	232	18
	\$ 64,741	\$ 22,712	\$ 42,029

18. SUBSEQUENT EVENTS

OREGON UNIVERSITY SYSTEM STRUCTURE CHANGES

Effective July 1, 2015, SOU became an independent legal entity governed by the Board of Trustees of Southern Oregon University. See Note 1 for additional information about this change in legal status.

REMOVAL OF STATE PAID DEBT

As a result of SOU becoming a component unit of the state, rather than an enterprise fund of the State for financial reporting, beginning with the fiscal year ended June 30, 2016, all state paid debt recorded by SOU as a long-term liability will be removed from SOU and recorded by the State of Oregon as the owner of the debt. State paid debt includes 100 percent of XI-G, XI-Q and Lottery bonds and a portion of COPs.

NEW STATE SICK LEAVE LAW

SB 454, passed in the 2015 Oregon Legislation, will take effect January 2016. This legislation mandates sick leave time for employers with more than 10 employees. The effect of this legislation should be immaterial as the majority of employees are covered by current sick leave policies. Employee classes that will become eligible for sick leave under this regulation include temporary employees and student employees not working on a work-study grant. These employees will receive 1.33 hours of leave for each 40 hours worked.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015 (DOLLARS IN THOUSANDS)

PENSION OBLIGATION LIABILITY

The Oregon Supreme Court on April 30, 2015, ruled in the Moro decision, that the provisions of SB 861, signed into law in October 2013, that limited the post-retirement COLA on benefits accrued prior to the signing of the law were unconstitutional. Benefits could be modified prospectively, but not retrospectively. As a result, those who retired before the bills were passed will continue to receive a COLA tied to the Consumer Price Index that normally results in a 2.00 percent increase annually. PERS will make restoration payments to those benefit recipients. PERS members who have accrued benefits before and after the effective dates of the 2013 legislation will have a blended COLA rate when they retire.

This is a change in benefit terms subsequent to the measurement date of June 30, 2014, which will be reflected in the next year's actuarial valuations. The impact of the Moro decision on the total pension liability and employer's net pension liability (asset) has not been fully determined. However, PERS' third-party actuaries have estimated the impact of the Moro decision under one possible methodology, which is summarized below (dollars in millions). Estimates have been rounded to the nearest \$10 million.

June 30, 2014 Measurement Date

	Prior to Moro	After Moro (estimated)
Net Pension Liability (Asset)		
Total Pension Liability	\$ 63,134.80	\$ 68,050.00
Fiduciary Net Position	65,401.50	65,400.00
Net Pension Liability (Asset)	\$ (2,266.7)	\$ 2,650.00

SOU's proportionate share of the statewide pension plan at MD	0.20765231%
SOU net pension (asset) prior to Moro (full dollars)	\$ (4,706,885)
Estimated fund net pension liability at MD after Moro (full dollars)	\$ 5,502,786

19. UNIVERSITY FOUNDATION

Under policies approved by the Board, individual university foundations may be established to provide assistance in fund raising, public outreach and other support for the mission of SOU. The SOU Foundation is a legally separate, tax-exempt entity with an independent governing board. Although SOU does not control the timing or amount of receipts from the foundation, the majority of resources, or income thereon, that the foundation holds and invests are restricted to the activities of the university by the donors. Because these restricted resources held by the foundation can only be used by, or for the benefit of, the university, the foundation is considered a component unit of SOU and is discretely presented in the financial statements. The financial activity is reported for the year ended June 30, 2015.

During the year ended June 30, 2015 gifts of \$2,447 were transferred from the university foundation to SOU. The SOU affiliated foundation is audited annually and received an unmodified audit opinion.

Please see the financial statements for the SOU component unit on pages 11 and 13 of this document.

Complete financial statements for the foundation may be obtained by writing to the following:

- *Southern Oregon University Foundation, 1250 Siskiyou Blvd., Ashland, OR 97520*

REQUIRED SUPPLEMENTARY INFORMATION (DOLLARS IN THOUSANDS)

SCHEDULE OF SOUTHERN OREGON UNIVERSITY'S CONTRIBUTIONS*
Public Employees Retirement System

	2015	2014	2013	2012
Contractually required contribution	\$ 1,587	\$ 1,705	\$ 1,671	\$ 1,615
Contributions in relation to the contractually required contribution	1,587	1,705	1,671	1,615
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
SOU's covered-employee payroll	\$ 22,557	\$ 23,066	\$ 23,109	\$ 22,542
Contributions as a percentage of covered-employee payroll	7.0%	7.4%	7.2%	7.2%

SCHEDULE OF SOUTHERN OREGON UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION ASSET*
Public Employees Retirement System

	2015
SOU's proportion of the net pension asset	0.21%
SOU's proportionate share of the net pension asset	\$ 4,707
SOU's covered-employee payroll	\$ 22,557
SOU's proportionate share of the net pension asset as a percentage of its covered-employee payroll	20.87%
Plan fiduciary net position as a percentage of the total pension asset	109.4%

FUNDING STATUS OF OTHER POSTEMPLOYMENT BENEFITS

Fiscal Year Ended	Actuarial Value of Assets	Actuarial (AAL)- Entry Age (a)	Actuarial Accrued Liability (AAL)- Entry (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2011	\$ -	\$ 2,113	\$ 2,113	0.0%	\$ 28,857	7.3%	
6/30/2012	-	2,050	2,050	0.0%	30,365	6.8%	
6/30/2013	-	2,033	2,033	0.0%	31,074	6.5%	
6/30/2014	-	1,307	1,307	0.0%	31,155	4.2%	
6/30/2015	-	1,231	1,231	0.0%	30,121	4.1%	

*Eventually, these tables will include data for 10 years. Only the data shown above is available at this time.

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For information about the financial data included in this report, contact;

Craig Morris
Vice President for Finance and Administration
Southern Oregon University
1250 Siskiyou Blvd.
Ashland, OR 97520
541-552-7672

Office of the President
1250 Siskiyou Boulevard
Ashland, Oregon 97520
541-552-7672
www.sou.edu



SOUTHERN OREGON UNIVERSITY
REPORT ON INTERNAL CONTROLS
IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

For the Year Ended June 30, 2015

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Southern Oregon University
Ashland, Oregon

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component unit of Southern Oregon University (University), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated December 15, 2015. Our report includes a reference to other auditors who audited the financial statements of the Southern University Foundation, a discretely presented component unit, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Greenwood Village, Colorado
December 15, 2015



Board of Trustees
and Management of Southern Oregon University
Ashland, Oregon

In planning and performing our audit of the financial statements of the business-type activities and the discretely presented component unit of Southern Oregon University (the University) as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the University's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to fraud or error may occur and not be detected by such controls. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses or significant deficiencies. However, material weaknesses or significant deficiencies may exist that have not been identified.

Other deficiencies in internal control and other matters

During our audit, we became aware of other deficiencies in internal control and another matter that are opportunities to strengthen your internal controls and improve the efficiency of your operations. While the nature and magnitude of the other deficiencies in internal control was not considered important enough to merit the attention of the Board of Trustees, it was considered of sufficient importance to merit management's attention and are included herein to provide a single, comprehensive communication for both those charged with governance and management.

- During our audit we identified, and management corrected, adjustments to cash and deposits that did not have an impact on ending net position. Due to the unique relationship between the University and the University Shared Services Enterprise (USSE) following the dissolution of the Oregon University System's Chancellor's Office, certain payroll liability payments were recorded during fiscal year 2015's close period by USSE, on behalf of the University, as cash transfers to USSE in the accounting system that were dated during fiscal year 2015. CLA noted that the cash transfers were actually initiated for payment during fiscal year 2016, and thus resulted in an understatement in the cash and deposit balance in the accounting records of the University. CLA had noted these items in prior audits of the Oregon University System, and had communicated them to management of the Oregon University System, during prior audits these amounts were not considered to have a material impact on the University's financial statements. We recommend that, though the University contracts USSE to complete their

payments to vendors for payroll benefit liabilities, the University should ensure they are reviewing USSE work and work together with USSE to ensure that transfers of cash are recorded on the same date in the accounting system as the cash reduction in the bank account.

- During the audit we discovered multiple credit account balances reported by management in the Student Information System (SIS) accounts receivable. Upon investigation we noted that some of credit balances were related to customers who had placed deposits for services with housing and dining. When looked into further it was noted that most of these customers had already received the benefit for which they initially placed the deposit. We inquired with management as to the reason these balances were still outstanding at year end when the services had already been performed prior to year end. Management noted that when customers place a deposit, the transaction flows through Banner SIS; however, housing is then responsible to administer charges to the customer's account when the services are provided. Though the aggregate amount of credit balances was immaterial at year end, CLA recommends that management work with housing to ensure that charges are placed on customer accounts when the services are provided.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various University personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendation.

* * *

This communication is intended solely for the information and use of management, the Board of Trustees, and others within the University, and is not intended to be, and should not be, used by anyone other than these specified parties.

The purpose of this communication is solely to describe the scope of our testing of internal control over financial reporting and the results of that testing. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Greenwood Village, Colorado
December 15, 2015

Southern Oregon University Board of Trustees

**Proposed Resolution: Acceptance of the Audited Financial Statements of
Southern Oregon University for the Year Ended June 30, 2015
Seconded Motion from the Executive and Audit Committee**

WHEREAS, the independent certified public accounting firm of CliftonLarsonAllen, LLP has completed its review of the financial statements of the Southern Oregon University for the fiscal year ended June 30, 2015; and

WHEREAS, the Executive and Audit Committee of the Board of Trustees has (1) reviewed the audited financial statements and report; (2) met with the external auditors and performed a satisfactory review of these documents; and (3) recommends acceptance of the audited financial statements;

NOW THEREFORE, BE IT RESOLVED: on seconded motion, that the Board of Trustees accepts the audited financial statements of the 2015 Annual Financial Report for the University for the fiscal year ended June 30, 2015.

Vote:

Date: January 22, 2016

Recorded by the University Board Secretary: _____

Bond Funding Authorization Approval for McNeal Pavilion and Theater – JPR Building

Enrollment Update

**Undergraduate Course SCH* by Department
Winter 2015 Week Ending 1/18/15 vs. Winter 2016 Week Ending 1/17/16
2 Weeks After Start of Term**

Department	Winter 2015	Winter 2016	Change	% Change
Art	2,354	1,506	-848	-36.0%
Creative Writing	456	526	70	15.4%
Emerging Media & Digital Art	1,177	1,427	250	21.2%
Music	1,299	1,356	57	4.4%
Theatre	2,376	2,587	211	8.9%
Subtotal - Oregon Center for the Arts	7,662	7,402	-260	-3.4%

Education	2,429	2,449	20	0.8%
Health and Physical Education	2,165	2,111	-54	-2.5%
Outdoor Adventure Leadership	585	664	79	13.5%
Military Science	124	119	-5	-4.0%
Subtotal - Education, Health and Leadership	5,303	5,343	40	0.8%

Criminology and Criminal Justice	2,413	2,381	-32	-1.3%
Economics	916	944	28	3.1%
Geography	268	144	-124	-46.3%
History	1,200	1,050	-150	-12.5%
Political Science	520	649	129	24.8%
Psychology	4,133	4,177	44	1.1%
Sociology/Anthropology	1,718	1,962	244	14.2%
Subtotal - Social Sciences	11,168	11,307	139	1.2%

Gen Ed and House Experience	604	521	-83	-13.7%
Honors College	221	288	67	30.3%
Learning Commons	40	-	-40	-100.0%
Success at Southern	32	39	7	21.9%
Undergraduate Studies	285	248	-37	-13.0%
University Seminar	2,326	2,942	616	26.5%
Subtotal - Undergraduate Studies	3,508	4,038	530	15.1%

Department	Winter 2015	Winter 2016	Change	% Change
Biology	2,224	2,782	558	25.1%
Chemistry	1,198	1,581	383	32.0%
Computer Science	1,084	1,248	164	15.1%
Mathematics	3,166	3,099	-67	-2.1%
Physics	854	857	3	0.4%
Subtotal - STEM Division	8,526	9,567	1,041	12.2%

Business	6,247	6,440	193	3.1%
Communication	2,287	2,796	509	22.3%
Environmental Studies	1,525	1,052	-473	-31.0%
Subtotal - Division of BCE	10,059	10,288	229	2.3%

English	1,217	1,203	-14	-1.2%
Gender, Sexuality, and Women's Studies	72	165	93	129.2%
International Studies	148	156	8	5.4%
Native American Studies	252	240	-12	-4.8%
Philosophy	1,019	894	-125	-12.3%
Foreign Languages & Literatures	1,952	1,974	22	1.1%
Subtotal - Humanities and Culture	4,660	4,632	-28	-0.6%

Library Science	-	-	-	
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Physical Education Activities	752	675	-77	-10.2%
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Total Undergraduate	51,638	53,252	1,614	3.1%
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Total Undergraduate + Graduate	55,262	56,855	1,593	2.9%
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* SCH = Student Credit Hours

Graduate Course SCH* by Department
Winter 2015 Week Ending 1/18/15 vs. Winter 2016 Week Ending 1/17/16
2 Weeks After Start of Term

Department	Winter 2015	Winter 2016	Change	% Change
Art	5	-	-5	-100.0%
Creative Writing	-	-	-	
Emerging Media & Digital Art	-	-	-	
Music	90	100	10	11.1%
Theatre	3	3	-	0.0%
Subtotal - Oregon Center for the Arts	98	103	5	5.1%

Education	2,034	2,055	21	1.0%
Health and Physical Education	14	6	-8	-57.1%
Outdoor Adventure Leadership	8	3	-5	-62.5%
Military Science	-	-	-	
Subtotal - Education, Health and Leadership	2,056	2,064	8	0.4%

Criminology and Criminal Justice	-	4	4	
Economics	-	-	-	
Geography	-	-	-	
History	-	-	-	
Political Science	-	-	-	
Psychology	468	536	68	14.5%
Sociology/Anthropology	4	-	-	0.0%
Subtotal - Social Sciences	472	540	68	14.4%

Master in Interdisciplinary Studies	38	22	-16	-42.1%
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* SCH = Student Credit Hours

Department	Winter 2015	Winter 2016	Change	% Change
Biology	126	75	-51	-40.5%
Chemistry	-	-	-	
Computer Science	12	16	4	33.3%
Mathematics	34	22	-12	-35.3%
Physics	-	-	-	
Subtotal - STEM Division	172	113	-59	-34.3%

Business	187	346	159	85.0%
Master in Business Administration	258	246	-12	-4.7%
Master in Management	231	36	-195	-84.4%
Communication	18	5	-13	-72.2%
Environmental Studies	7	36	29	414.3%
Subtotal - Division of BCE	701	669	-32	-4.6%

English	7	-	-7	-100.0%
Gender, Sexuality, and Women's Studies	8	-	-8	-100.0%
International Studies	-	-	-	
Native American Studies	-	8	8	
Philosophy	-	-	-	
Foreign Languages & Literatures	72	84	12	16.7%
Subtotal - Humanities and Culture	87	92	5	5.7%

Total Graduate	3,624	3,603	-21	-0.6%
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Total Undergraduate + Graduate	55,262	56,855	1,593	2.9%
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Enrolled Student Headcounts
Winter 2015 Week Ending 1/18/15 vs. Winter 2016 Week Ending 1/17/16
2 Weeks After Start of Term

	Winter 2015	Winter 2016	Change	% Change	Winter 2015 End of Term	Change	% Change
First Year Students	26	23	-3	-11.5%	26	-3	-11.5%
New Transfers	114	126	12	10.5%	117	9	7.7%
New PostBacs/Graduates	31	39	8	25.8%	34	5	14.7%
Subtotal - New Students	171	188	17	9.9%	177	11	6.2%
Continuing Students	4,220	4,243	23	0.5%	4,293	-50	-1.2%
Returning after Absence	155	154	-1	-0.6%	104	50	48.1%
Non-Admitted	226	289	63	27.9%	1,261	-972	-77.1%
Grand Total - Headcount	4,772	4,874	102	2.1%	5,835	-961	-16.5%
Grand Total - FTE	3,748	3,852	104	2.8%	4,083	-231	-5.7%
Resident	3,158	3,120	-38	-1.2%	4,148	-1,028	-24.8%
Non-Resident	1,614	1,754	140	8.7%	1,687	67	4.0%
International	132	137	5	3.8%	134	3	2.2%
American Indian/Alaskan Native	55	58	3	5.5%	55	3	5.5%
Asian	91	92	1	1.1%	96	-4	-4.2%
Black/African American	106	118	12	11.3%	108	10	9.3%
Hispanic/Latino	443	480	37	8.4%	465	15	3.2%
Pacific Islander	23	19	-4	-17.4%	23	-4	-17.4%
North African, Middle Eastern, Other	29	25	-4	-13.8%	31	-6	-19.4%
Two or More Races	341	409	68	19.9%	352	57	16.2%
Subtotal - Students of Color (race & ethnicity)	1,088	1,201	113	10.4%	1,130	71	6.3%
White	2,947	2,847	-100	-3.4%	3,077	-230	-7.5%
Unknown*	605	689	84	13.9%	1,494	-805	-53.9%
Alaska	78	79	1	1.3%	78	1	1.3%
California	934	1,040	106	11.3%	985	55	5.6%
Hawaii	99	105	6	6.1%	99	6	6.1%
Idaho	28	29	1	3.6%	28	1	3.6%
Washington	149	151	2	1.3%	149	2	1.3%
All Other States	229	247	18	7.9%	241	6	2.5%

*includes a significant number of non-admitted students whose ethnicity/race data is not systematically tracked

SCH* by Student Level Within Tuition Category
Winter 2015 Week Ending 1/18/15 vs. Winter 2016 Week Ending 1/17/16
2 Weeks After Start of Term

Tuition Category	Winter 2015	Winter 2016	Change	% Change
UG WUE	13,862	15,292	1,430	10.3%
UG Resident	28,095	28,081	-14	0.0%
UG Non-resident	1,493	1,528	35	2.3%
UG Online	6,647	6,813	166	2.5%
Subtotal - Undergraduates	50,097	51,714	1,617	3.2%
GR Resident	733	746	13	1.8%
GR Non-resident	482	480	-2	-0.4%
GR Online	391	295	-96	-24.6%
GR Education Differential	1,571	1,678	107	6.8%
Subtotal - Graduates	3,177	3,199	22	0.7%
Staff Rates	805	727	-78	-9.7%
Waived Tuition	648	682	34	5.2%
Course Based Tuition	493	528	35	7.1%
Advanced Southern Credit	28	-	-28	-100.0%
Early Entry HS	14	29	15	107.1%
Grand Total - SCH	55,262	56,879	1,617	2.9%

* SCH = Student Credit Hours

Accreditation Update

Faculty Negotiations Update

Faculty Negotiations Update

(As provided by Brian Caufield, USSE)

SOU and its faculty union, APSOU, reached a tentative agreement on January 6, thereby concluding 8 months of negotiations. Highlights of the tentative agreement appear below:

- The first ever 3-year agreement. The agreement will expire August 31, 2018.
- Year-in-rank increases of approximately 1.6% will remain in place for the duration of the agreement.
- Cost of living increases as follows:
 - In the first year of the agreement, 2.0% for faculty ranks other than Assistant Professors; Assistant Professors will receive 2.5%
 - In the second year of the agreement all faculty ranks will receive 2.75%
 - In the third year of the agreement all faculty ranks will receive 3.5%
- Current healthcare benefits, which consist of a 95/5 or 97/3 employer/employee contribution split, will remain in effect through December 31, 2017
- Providing \$42,000 for Professional Development Grants in each of the three years of the agreement
- Increased Professional Development Accounts to \$825 for professional faculty and \$1,375 for professorial faculty
- Significant changes overall to the language governing retrenchment include:
 - Not requiring the application of retrenchment principles when the reduction, reconfiguration and/or elimination of an academic program does not result in the loss of a Member's faculty position. Such changes are governed under the less restrictive language of Article 5.
 - Enhancing the transparency and collaboration within which retrenchment will occur.
 - Waiver of the right to grieve retrenchment plans provided that certain factors were, at the very least, considered in a global way.
 - Clarifying language regarding when SOU is obligated to recall a retrenched faculty member, what rights are afforded those retrenched faculty members and when those rights expire.
- Clarified which faculty members are eligible for relinquishment and inserted language to establish a process on when they can relinquish, and when the Provost may exercise her/his discretion in denying an application for relinquishment.
- Overhauled the language relating to working conditions by:
 - Identifying a full load for a professorial faculty member is 45 ELU (which includes 36 ELU of teaching and the rest composed of scholarship and service), and that a full load for a professional faculty member is 45 ELU of teaching plus an acceptable level of service as defined in the Bylaws.

- Establishing an MOU to create a task force to address triggers, evaluation process and outcomes for faculty related to performance.
- Changes to teaching loading include:
 - Lab/studio loading was increased from 2 ELU for 3 contact hours to 1 ELU for 1 contact hour for intensive labs or 3 ELU for 4 hours for prepared labs (changed from $\frac{2}{3}$ -for-1 to 1-for-1 or $\frac{3}{4}$ -for-1)
 - Graduate courses considered low enrolled if less than 7 students; the bar for undergraduate low enrollment stayed at 10
 - Over-enrolled policy in place to give additional ELU for courses over-enrolled by more than 110%
 - Advising policy to give ELU loading for faculty with 35 or more advisees
 - 5 hours of scheduled office hours per week are required of full-time instructors
- Agreeing that after a position has been filled with temporary appointments for two (2) consecutive years, a plan needs to be developed and carried out within the next 2 years – for a total of 4 years. This was decreased from 3 years + 3 years for a total of 6 years.

Legislative Update

General Legislative Issues for 2016

- **Gross Receipts Tax:** A proposed ballot measure would institute a gross receipts tax on companies doing more than \$25 million in annual business in Oregon. It would bring in approximately \$2.5 billion per year.
- **PERS costs:** The State is facing billions in costs to fund the Public Employee Retirement System. Costs are passed on to schools and universities.
- **Minimum Wage Change:** There are a variety of proposals underway, one or more of which may appear on the November ballot.
 - "Oregonians for 15" initiative: The coalition proposes raising the statewide minimum to \$15 an hour by 2019. The increase would take place in gradual, annual phases starting in 2017.
 - "Raise The Wage" initiative: The coalition wants a \$13.50 an hour statewide minimum by 2018, with annual increases also starting next year. Additionally, it would allow local jurisdictions to set their own thresholds above the statewide minimum by removing a pre-emption law.
 - Governor's legislative proposal: Brown's plan would increase metro Portland's minimum to \$11.79 and the rest of the state to \$10.25 at the beginning of next year. In 2022, the numbers jump again to \$15.52 in Portland to \$13.50 everywhere else.

Under each proposal, wages would be adjusted for inflation after reaching their perspective thresholds, which is the current practice under state law.

- **Emergency planning at colleges and universities:** The Governor is creating a statewide task force on emergency preparedness and response at colleges and universities. This task force stems from the Umpqua CC shooting and the subsequent Governor's statewide meeting with community college and university presidents held in November. The group will develop platforms for how to deal with major crisis situations and create support models where sister institutions can assist.
- **HECC Workgroups:** There are multiple work groups engaged in review and implementation of several higher education studies and bills ranging from reporting on demographics and sexual orientation of students to the Oregon Promise (free community college). SOU has representatives on many of these groups.

Important Dates

Feb. 4: Board Chairs and University President's at Capitol and President's Council in Salem
This day is planned around meetings for leadership at the universities and the legislature. The focus of these meetings is positioning the public universities for 2016 legislative priorities.

Feb. 11: Public University Day

Staff are working on a large-scale effort to dramatically increase higher education's visibility with the legislature. We are engaging with ASSOU and others to plan the day and hope to have a strong showing from SOU. Messaging and key talking points are in development.

2016 JOINT AGENDA FOR PUBLIC UNIVERSITIES *(and more to follow)*

Further State Investment for priority needs on the path to \$755M state investment this biennium.

Capital Construction Requests from SOU, PSU, OIT

Renew the University Venture Development Fund (HB 4072)

Appropriate the \$1.9M Special Purpose funds from the 2015 session for Universities

HECC Report Update

Adjourn